# Firstmac Residential Lending Policy

**Broker**

**February 2024**



Firstmac Limited ABN 59 094 145 963
AFSL/Australian Credit Licence 290600

## Summary of recent updates

| Date | Policy section | Summary of change |
|---|---|---|
| 29/02/2024 | 19.2 Maximum LVR & Loan Amount by Postcode Location | Various updates to maximum loan amount per security |
| 29/02/2024 | 31.8 Loan amount & LVR (SMSF) | Various updates to maximum loan amount per security |
| 13/02/2024 | 17 Security Valuations | AVM & Desktop criteria updated to include LVR / FSD tiering and Desktop criteria for SMSF loans with residential security) |
| 13/02/2024 | 31.11 Security valuations for SMSF loans | EVR / Desktop valuations for residential security – max LVR 70% |
| 10/11/2023 | 15.1 Firstmac Serviceability Assessment Rate | Assessment rates updated in line with RBA rate change |
| 10/11/2023 | 31.10.1 Serviceability assessment rate (SMSF) | Assessment rates updated in line with RBA rate change |
| 04/10/2023 | 19.2 Maximum LVR & Loan Amounts by Postcode location | Maximum LVR & loan amount based on security use updated for Home loans, non-resident borrower & SMSF |
| 04/10/2023 | 8 Non-resident borrowers | Maximum loan amount / TXP aligned with standard policy; LMI not required for LVR > 70% < 80% |
| 07/09/2023 | 5.1 Lender Risk Fee (LRF) | Max loan amount where all security is Cat 1a increased |
| 21/08/2023 | 32 Bridging Loans | New Bridging Loan Policy added |
| 03/07/2023 | 15.1 Firstmac Serviceability Assessment Rate | Buffer reduced from 3.00% pa to 2.00% pa |
| 03/07/2023 | 31.10.1 Serviceability assessment rate (SMSF) | Buffer reduced from 3.00% pa to 2.00% pa |
| 08/06/2023 | 10 Employment and Income | Minimum time in current employment for Casual employees updated |
| 23/05/2023 | 19.2 Maximum LVR & Loan Amounts by Postcode location | Maximum LVR & loan amount based on security use increased for owner occupied |
| 15/03/2023 | 19 Loan amount | Maximum loan amount per security for Category 2 and Category 3 postcodes updated |
| 24/01/2023 | 19.1 Postcode category | Postcode category description includes ‘sub-category’ applied to some postcodes |
| 24/01/2023 | 31.8 Loan amount & LVR (SMSF) | Maximum loan amount per security for Category 2 and Category 3 postcodes updated |

## Contents

# 1 Introduction

Firstmac's lending guidelines have been developed to assist Brokers and 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 where considered appropriate, should be mortgage insured.

This Policy 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 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.

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.

## 2.1 Policy Exceptions

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 and Brokers**

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 their file, and forward copies 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

**Firstmac Credit**

- Performs Valuer checks
- Undertakes a credit assessment and review of all loan applications to ensure compliance with program parameters
- Advises the Originator / Mortgage Manager or Broker 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 or Broker would supply all the required information with the application
- Approves, declines or defers the application
- Undertakes ongoing audit

## 3.1 National Consumer Credit Protection Act (“NCCP”)

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

The NCCP applies to Firstmac and to Originators/Mortgage Managers and 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, Brokers or Introducers, and their representatives and employees involved with any credit related activities under the NCCP are required to observe and comply with the guidelines.

Firstmac expects any Originator/Mortgage Manager, Broker or Introducer to suggest or recommend to an applicant only those arrangements for finance that the Originator/Mortgage Manager, Broker or Introducer genuinely and reasonably believes is ‘not unsuitable’ to the needs of that applicant after undertaking an assessment of the applicant’s capacity to repay the loan. Firstmac applies this standard to all loans and not just NCCP regulated loans.

The Originator/Mortgage Manager, Broker or 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.

## 3.2 Firstmac Credit Assessment

Firstmac undertakes individual credit assessments using its systems, policies and process to assess whether it is likely that the borrower will be able to comply with their financial obligations under the contract without substantial hardship.

‘Substantial hardship’ is defined to exist if the borrower could only comply with the obligation by:

- selling their principle place of residence (and does not intend to at the time of the contract); or
- would fail to make rental payments on the principal place of residence.

Firstmac assesses credit risk primarily on the strength of a borrower’s capacity to repay the loan without substantial hardship. While the security provided is also considered, reliance on the security is not a substitute for a credit assessment of a borrower’s repayment capacity.

Firstmac's assessment includes:

- 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, Broker or Introducer) or final assessment (lenders) about whether the credit is 'not unsuitable' for the consumer

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

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.

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 Originator/Mortgage Managers, Brokers or Introducers make specific enquiries relating to the following:

- Is customer aware of information relevant to their loan application that has not been provided and may have an adverse impact on their financial circumstances?
- Is customer aware of any future change in their employment which may adversely affect his/her/their ability to meet their current and future financial obligations?
- Does customer anticipate any increase to 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 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 their business activities during the next 12 months?

Originator/Mortgage Managers, 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, 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.

### 3.3 Assessment period

All Originator/Mortgage Managers, Brokers and Introducers must make the preliminary assessment within 90 days of when the credit assistance is provided. This will be when the Originator/Mortgage Manager, Broker or 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.

The assessment must be made 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 it covers.

Originator/Mortgage Managers, Brokers and Introducers will need to keep a record of the steps taken to make reasonable enquiries; and to verify the consumers' financial situation. The Originator/Mortgage Manager, Broker or 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 Loan approvals

A Delegated Lending Authority (DLA) is issued to Firstmac employees only.

All Firstmac DLA Holders are required to assess each loan in accordance with the Firstmac Residential Lending Policy and the Lender's Mortgage Insurer Guidelines (where required).

Final approval of a loan will only be issued once a Firstmac DLA Holder with appropriate level of authority has reviewed the application, valuation, supporting documentation held and where applicable, Lender's Mortgage Insurance (LMI) is held. Loans not requiring Lender's Mortgage Insurance (Non-LMI)

Eligible loans will be considered without Lender's Mortgage Insurance (LMI).

While the LVR is a key factor in determining whether a loan can be approved without LMI, other borrower and loan characteristics are taken in to consideration. As a result, there will be loans with an LVR less than 80% that Firstmac will deem require LMI (refer *Lender's Mortgage Insurance (LMI)*).

# 5 Risk Fee

A Risk Fee will be charged for loans with characteristics that represent a greater risk of loss.

The Risk Fee type and amount will vary depending on the loan amount and LVR, with pricing to be determined by Firstmac and reviewed from time to time.

The Risk Fee is payable by the borrower, and may be capitalised to the loan, provided the total loan amount including the Risk Fee does not exceed the limits outlined throughout this policy.

No part of the Risk Fee is refundable when a loan is repaid, or if the LVR is reduced, regardless of how long the loan has been operating.

## 5.1 Lender Risk Fee (LRF) – LVR > 80% and ≤ 90%

Loans with LVR > 80% ≤ 90% may be considered without LMI where all below criteria is met:

- Security is in a Category 1a or Category 1b postcode as shown Firstmac Acceptable Security Location guide; and
- Maximum loan amount (inclusive of LRF capitalised):
    - $1,000,000 where all security is in Category 1a postcode
    - $750,000 where any security is in a Category 1b postcode; and
- Maximum LVR ≤ 90% (inclusive of LRF capitalised); and
- Repayments are Principal & Interest (not available for Interest Only); and
- All other standard credit criteria & residential lending policy is met.
- Exclusions:
    - Loan is included in *When LMI is required*
    - Any construction loan
    - Any loan to a non-resident borrower or SMSF
    - Apartments / units in a development > 6 floors & in a high density postcode as per Firstmac Acceptable Security Location guide

Additional restrictions or exclusions as determined by Firstmac from time to time. Loans that do not meet the above criteria require Lender's Mortgage Insurance.

## 5.2 Investor Risk Fee (PRF)

An Investor Risk Fee will be charged where:

- Borrower has investment lending only with Firstmac (ie owner occupied loan/security held by another Lender; or no owner occupied property at all), and
- Debt to Income ratio (DTI)* of 8.0:1 or above, and
- LVR > 70%

* DTI is the total of all credit facility / debt limits divided by the total gross income

All standard credit criteria applies, plus the following:

- Maximum LVR 80% before PRF is capitalised.
- Where capitalising the IRF causes the LVR to go over 80%, loan repayments must be principal and interest.
- Exit strategy must be provided by the Borrower, regardless of the age of Borrower at time of application. It is important that the borrower demonstrates awareness of their leveraged position and actively considers their future strategy.

## 6 Lender's Mortgage Insurance (LMI)

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.

All loans which fall into the parameters outlined in *When LMI is required* must be 100% lender's mortgage insured, with Cash Flow Cover for all loans with LVR > 80%.

Where an existing loan is mortgage insured without Cash Flow Cover due to the original LVR ≤ 80%, Firstmac may require Cash Flow Cover on this loan where any variation is completed that results in the LVR now exceeding 80%.

The current approved insurers are:

- Helia Insurance Pty Limited (formerly Genworth Financial Mortgage Insurance Pty Limited)
- QBE Lenders' Mortgage Insurance Limited
- and respective related companies of these two insurers, as advised.

For loans requiring LMI, the requirements of the Mortgage Insurer must also be observed, whether they are consistent with provisions in this policy or not. The Mortgage Insurer policy however is not to supersede or override Firstmac's policy.

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 insurer's 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.

### 6.1 When LMI is required

Loan applications with any of the following features are required to be mortgage insured prior to final approval:

- Any loan where LVR exceeds 80% that does not meet *LRF eligibility criteria*
- Any construction loan where LVR exceeds 80%
- Any additional or further advances to existing loans which are:
    - currently mortgage insured; or
    - currently non-lmi and no longer eligible for non-lmi
      (note – LMI premium will be calculated on the new total loan amount)
- Any loan application where mortgage insurance is considered appropriate by Firstmac, regardless of the LVR

### 6.2 LMI Premium

Current LMI premium calculators / rates are available on the Firstmac website.

Firstmac will not be responsible for any premium where any third party has incorrectly quoted or advised a borrower that no premium is payable by the borrower.

Firstmac will pay the LMI premium on:

- New loans where LVR $\leq$ 80% and total loan amount does not exceed $1,000,000
- Additional advances or further advances against a security that is held for a loan that is currently mortgage insured, provided the increase amount is > $25,000, LVR remains below 80% and total loan amount does not exceed $1,000,000.

Where a borrower seeks a variation to a loan which is currently mortgage insured after it has settled, other than an increase to the loan amount, 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.

## 7 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 (family, discretionary & unit trusts only).

Excluded borrowers and Guarantors are Limited liability companies, Associations, Churches, Clubs and minors (persons under the age of 18).

## 7.1 Maximum Borrower exposure

The maximum exposure to any one borrower is up to $3 million.

Exposures above this amount may be considered on an exceptional, case by case basis. Any such exceptions where supported by Firstmac Credit, may require Lender's Mortgage Insurance on all, or part of the total exposure.

## 7.2 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.

The age of any borrower / guarantor at the end of the loan term is not to exceed 90 years of age. The requested loan term may be reduced to meet this requirement, refer policy section *Loan Term* for details of minimum and maximum loan terms available.

## 7.3 Borrowers approaching retirement age

Where a borrower is > 50 years of age or older at the time of application, and the loan term exceeds the borrower's deemed retirement age of 67 years, consideration must be given to the borrower's exit strategy ie how the loan will be serviced, or repaid, when the income from employment ceases.

An exit strategy should take in to consideration the borrower's remaining time in the workforce, their age at the end of the proposed loan term, their ability to continue servicing the loan, or repay the loan in full without incurring substantial hardship post retirement.

### 7.3.1 Obtaining the exit strategy

The exit strategy should come from the borrower and is to be retained on the loan file as follows:

- Borrower age 60 or younger at application
  - Broker to discuss the exit strategy with the borrower & provide detailed notes to Firstmac by email, or a written statement from the borrower to be retained on the loan file.
- Borrower age 61 or older at application
  - The exit strategy must be from the borrower.
  - It can be by email (direct or via the Broker) and is to be retained on the loan file.
- Borrower age 70 or older at application
  - As for borrower age 61 or older, plus independent legal advice required.

### 7.3.2 Exit strategy options & details to be obtained

Below are some examples of what information might be included in an exit strategy, however it is not required to specifically reference answers to all of the questions posed below. For example, stating an intention to sell an investment or other asset post retirement does not require a specific date, or expected amount to be realised from the sale. The reasonableness of an exit strategy can be assessed using the total assets and liabilities provided by the borrower, and current asset values.

Example:

Propose to repay the loan prior to retirement other than selling the property

- *Does the borrower have sufficient income / savings / identified source of funds?*

Selling an owner-occupied property being funded

- *When does the borrower plan to sell?*
- *Does the borrower have a reasonable plan for accommodation after sale?*
- *At the time of the planned sale, will the likely equity position mean the borrower can pay the outstanding balance of the loan?*

Selling an investment property being funded

- *When does the borrower plan to sell?*
- *At the time of the planned sale, will the likely equity position mean the borrower can pay the outstanding balance of the loan?*

Selling another investment property / other asset

- *What does the borrower plan to sell?*
- *When does the borrower plan to sell it?*
- *At the time of the planned sale, will the likely equity position mean the borrower can pay the outstanding balance of the loan?*

Using income from other investments to make a lump sum repayment in full

- *Will the likely proceeds from the other investments be sufficient to pay the outstanding balance of the loan?*

Plan to convert the property being funded to an investment property in the future

- *When does the borrower plan to convert the property to investment?*
- *At the time of the planned conversion, will the like rental income be sufficient to make the repayments under the loan?*

Using superannuation to continue to pay down / off the loan

- *Are the superannuation benefits sufficient to meet the borrower's ongoing financial needs plus the repayments under the loan?*

Using savings to continue to pay down / off the loan

- *Are the savings sufficient to meet the borrower's ongoing financial needs plus the repayments under the loan?*

Other (for example, co-borrowers income)

- *Collect full details of proposed exit strategy*

## 7.4 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

## 7.5 Borrowers of convenience

A “borrower of convenience” is defined as a borrower that is added to the loan application to provide serviceability and/or security but does not receive a tangible benefit from the loan transaction.

Borrowers must have a beneficial interest in the loan transaction either by way of joint ownership of the security and/or dependence on the mortgagor in a marital / defacto relationship.

It is not acceptable for a person to be joined in a loan simply to provide income support for servicing, or simply to provide added security for another party to purchase a property.

## 7.6 Third party mortgages/guarantees

Firstmac will consider loans that are supported by a third party security where the borrower and mortgagor are common law spouses.

Examples of acceptable third party mortgages:

| Borrower | Mortgagor / Guarantor |
| --- | --- |
| A & B Smith | A Smith (or B Smith) |
| A (or B) Smith | A & B Smith |
| A Smith | B Smith |

Independent legal advice is to be obtained by the third party borrower / mortgagor in the following cases:

**Investment property as security:**

- All loans structured with Borrower: A Smith and Mortgagor/guarantor: B Smith
- Refinance – where the structure of the new loan is **not** the same structure held with the outgoing lender, regardless of the new structure.
- Purchase – all loans, regardless of the structure.

**Owner occupied property as security:**

- All loans structured with Borrower: A Smith and Mortgagor/guarantor: B Smith
- For all other owner occupied property structures, independent legal and financial advice is not mandatory, but will be recommended in the loan agreement. The third party borrower / mortgagor (guarantor) may choose not to obtain the advice, by acknowledging as follows:
    - Third party Borrower – Borrower Certification form issued with loan documentation must be completed to reflect advice not being obtained;
    - Third party Mortgagor (Guarantor) – the Guarantor loan documentation pack will include the relevant certificates to be completed when advice is obtained, however, will also include a Waiver Declaration for the Guarantor to sign should they choose not to obtain independent advice.

### 7.6.1 Corporate borrowers

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, if applicable) 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.

## 7.7 Trust borrowers

Loans to trusts (family, discretionary & unit trusts only) 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 is 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.

Loans to Trustee/s of a Self-Managed Super Fund (SMSF) may be considered, refer to section *Self Managed Super Funds (SMSF)* for specific requirements.

### 7.7.1 Hybrid Trusts

Hybrid trusts are a combination of discretionary and unit trusts which are generally very complex and tax driven. The loan structure required to gain the benefit of the trust and the inability to identify the beneficiaries of any cash flow make them unsuitable borrowers. Firstmac does not lend to hybrid trusts.

## 7.8 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 an acceptable certificate is available from Firstmac.

### 7.9 Powers of Attorney

Firstmac does not accept loan applications or legal documents, signed under power of attorney except in the case of corporate borrowers. 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.

## 8 Non-resident borrowers

For the purposes of these guidelines, a non-resident is deemed to be:

- Any person who resides and is employed in Australia, who does not have permanent residency status in Australia

  and / or

- Any person who resides and is employed in another country.

Applications for loans (including Additional & Further Advances), will only be considered for Australian or New Zealand citizens, who are living and working overseas.

Australian or New Zealand citizenship is to be confirmed by certified copy of Australian or New Zealand passport.

Standard policy (ie not 'non-resident') can be applied to:

- Applicants who are Australian or New Zealand citizens living & working in New Zealand;
- Applicants living and working in Australia who are not Australian or New Zealand citizens, provided at least one of the applicants holds permanent residency status (to be confirmed by certified copy of passport and Visa Entitlement Verification Online (VEVO)). The applicant without permanent residency status must be the common law spouse of the applicant who is an Australian or New Zealand citizen, and must hold an appropriate partner visa.
- Applicants who are living and working in Australia where one applicant only is an Australian or New Zealand citizen, provided the 'non-citizen' applicant is a common law spouse of the applicant who is an Australian or New Zealand citizen and holds appropriate partner visa.

Applicants should be considered high net worth clients with a strong net asset and cash flow position.

Non-resident self-employed, overseas company or business borrowers, companies or trusts in Australia where directors / trustees are living & working overseas, or non-resident guarantors are not acceptable.

Cash out / equity release is not available.

Other restrictions for lending to non-resident borrowers may be imposed by Firstmac from time to time.

#### 8.1.1 Maximum loan amount / LVR

Refer *Maximum LVR & Loan Amounts by Postcode location*.

#### 8.1.2 Income & Employment - PAYG

The standard income and employment policies apply to non-resident borrowers. In addition, acceptable income evidence should also be translated into English and converted to Australian dollars at current exchange rate.

Maximum of 90% of overseas sourced income (converted to Australian dollars) may be used for assessing serviceability.

#### 8.1.3 Serviceability

Standard Serviceability calculations are to be used (refer *Loan serviceability calculation*), including living expenses, and all ongoing commitments/expenses (including those incurred overseas).

#### 8.1.4 Additional requirements

- Where applicable, 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. An offset sub-account with the new loan will be sufficient to meet this requirement.

## 9 Credit reports

A Credit report through Equifax must be obtained for each borrower and guarantor (individuals & companies). Where the borrower is a trust, a credit report for the trust is not applicable however a credit report on each trustee is required.

The credit report obtained must be a comprehensive credit report that includes the Equifax score, and for individuals, must include both consumer & commercial details.

The Credit report can only be performed when a Privacy Act Authority is held for that person or entity. Originator/Mortgage Managers must ensure every borrower and guarantor has provided consent via a fully completed Privacy Act Authority prior to obtaining a credit report and/or submitting an application to Firstmac.

Substantial penalties apply to both individuals and companies for misuse of the Credit reporting system under the provisions of the Privacy Act.

A Credit Report issued within the last 90 days should be held at time of final credit assessment by Firstmac.

### 9.1 Reviewing Credit Reports

All Credit reports must be reviewed to determine the age of the credit file, the Equifax score, and identify any possible match files, directorships / business names, or adverse listings.

All financial details in the credit report must be reviewed including ‘Credit enquiries’ and ‘Accounts & repayments’ (comprehensive credit reporting data provided by contributing credit providers), and compared to the borrower stated liabilities.

## 9.2 Age of credit report

Where an Equifax Credit file is new, or created within the last 6 months, additional steps should be taken to reconfirm the borrower’s full personal details and confirm their identity. Further discussion with borrower may be required to determine the reason for the new credit file.

If the borrower is likely to have an existing credit file eg has other credit facilities, or recent change of name, additional checks are to be completed to locate that existing credit file.

## 9.3 Multiple names or a ‘possible match’

There may be instances where a borrower has more than one name eg following marriage, or divorce. If the borrower has more than one Equifax file number, a credit check on all Equifax file numbers should be conducted.

There are occasions where a ‘possible match’ is identified by Equifax. Further investigation should be conducted to determine if the ‘possible match’ is the borrower, and if so, obtain a credit report on the ‘possible match’ file.

## 9.4 Directorships on individual’s credit report

Where an individual borrower or guarantor credit report shows they are a current director of a company, and the company is a source of income needed for serviceability, a credit report is required that company.

Reports are not required for a company where:

- the individual is noted as a previous director;
- no reliance on income from the company to support serviceability (unless there are indications the company may have adverse credit history).

Where a current directorship is shown on credit report, and the company is not a source of income needed for serviceability, enquiries should be made to confirm the trading status of the company.

Verbal or written (eg email) confirmation should be obtained from the Borrower stating the company is able to meet all commitments & expenses from its own cash flow and without reliance on their individual income. If it is confirmed that the individual is supporting the company commitments from their current employment income, this will need to be taken into account when assessing serviceability.

## 9.5 Review of previous enquiries on Equifax credit report

High volume of credit enquiry may indicate greater likelihood of an unfavorable event, such as a default, being recorded on a credit file.

Each Equifax credit report is to be reviewed to identify any undisclosed or under disclosed debts, by comparing details of the credit report against Assets & Liabilities statement on the loan application. Unmatched loans details are to be investigated / discussed with the borrower.

Loans requiring LMI – regardless of the Equifax Score, as a minimum, all credit enquiries within the last 12 months are to be queried and compared against Assets & Liabilities statement on the loan application. Unmatched enquiries are to be investigated / discussed with the borrower. A notation is to be made for each enquiry listed, confirming the outcome of the enquiry. Where an application has not proceeded, or been declined, the reason is to be provided.

### 9.6 Credit History

Firstmac considers borrowers with any history of financial defaults (ie default listed by a credit provider), non-financial defaults that do not meet the criteria below, court writs, petitions, and bankruptcies, to be high risk and the application will be declined.

Non-financial defaults (ie default list by telco or utility provider only) may be considered subject to:

- Default was not listed by a financial institution (ie will only consider Telco / Utility); **and**
- Default amount does not exceed $1,000; **and**
- Credit report is updated to show default as paid, or evidence the default is paid in full from the lister; **and**
- A reasonable explanation is provided in writing from borrower detailing the circumstances

### 9.7 Ban period

Individuals may request Equifax to place a Ban Period on their credit file due to concerns regarding fraud. Where a credit report is attempted on a credit file with a current Ban Period, Equifax will return a message indicating a ban is in place and the credit report will not be provided. A loan assessment cannot be completed until the ban period ends and a complete credit report is received.

## 10 Employment and income

Employment should be considered ongoing and stable. The following table describes the types of employment and minimum term that is acceptable.

While consideration may be given to applicants with short term current employment, and / or applicants on probation, the type of employment and reasons for recent employment change needs to be investigated to mitigate and support acceptance.

| Type of employment | Requirements |
|---|---|
| Permanent full time / part time / contract | • Minimum 6 months with current employer; or<br>• If < 6 months with current employer, minimum 12 months continuous in same occupation & industry<br>**Probation period**<br>Application may be considered if the borrower has 12 months continuous employment, in the same occupation type and industry |
| Casual (PAYG) | • Minimum 6 months with current employer, with at least 12 months continuous in same occupation & industry |
| Second job (PAYG) | • Minimum 12 months with the 'second' employer with 2 jobs held concurrently over that period |
| Self-employed* | Minimum two (2) years trading in the current business.<br>• Specific Firstmac DLA Discretion - exception may be considered on case by case basis where a borrower has only 12 months trading in the current business **and** 2 years in previous employment with similar occupation or field |

*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"

## 10.1 Income verification

### 10.1.1 PAYG applicants

PAYG borrowers must provide satisfactory evidence to support the income stated in the application.

Primary income verification is to include:

- 2 consecutive payslips to confirm income and employment, with the most recent payslip being no more than 4 weeks old. Payslips should be computer generated showing borrower name, employer's name and ABN, current salary/wage and year-to-date earnings; **and**
- For loans with LVR > 80% – 1 month's bank statement clearly showing salary / wage credits from the employer (an internet transaction history may be acceptable provided it clearly shows the account owner name, full account number, bank details etc); **and**
- Where serviceability is reliant on additional income from employment such as overtime, allowances, bonuses, or commission, the most recent financial year Tax Ready ATO income statement or PAYG summary is required.

Secondary income verification – if the Primary income verification is not available or does not meet the criteria (eg payslips are handwritten), alternative verification document types may be considered:

- 3 months bank statements clearly showing salary paid by employer (an internet transaction history may be acceptable provided it clearly shows the account owner name, full account number, bank details etc); or
- The most recent previous financial year Tax Ready income statement or PAYG Summary from current employer; **and**
- 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)

Firstmac 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.

### 10.1.2 PAYG employment in family owned or controlled business

Where the borrower(s) is employed by family, or through a family owned or controlled business, the following income verification is required:

- 2 most recent consecutive payslips; **and / or**

- 3 months bank statements clearly showing salary paid by employer (mandatory for loans with LVR > 80%); an internet transaction history may be acceptable provided it clearly shows the account owner name, full account number, bank details etc; **and**
- the most recent previous financial year Tax Ready ATO income statement; or, if employment commenced in current financial year, the current financial year's YTD Income statement should be obtained.

### 10.1.3 Self-employed applicants / companies / trusts

Self-employed individuals 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, to be verified by a valid ABN registered for GST (unless legitimately exempt) and other documentation satisfactory to Firstmac.

Self-employed borrowers not meeting the criteria in section *Self-employed individuals paying self PAYG*, and company or trust borrowers, must provide:

- The most recent two (2) financial years full personal tax returns, with corresponding ATO Tax Assessment Notices; **and either**
- The most recent two (2) financial years:
  - full business tax returns; **or**
  - full financial statements for the business including balance sheet and profit & loss statements, signed by the borrower's Accountant

Where LMI is required, all self-employed individual and company or trust borrowers must provide:

- The most recent two (2) financial years full personal tax returns, with corresponding ATO Tax Assessment Notices; **and**
- The most recent two (2) financial years full business tax returns.

The documents provided should be reviewed to ensure the Accountant's details are clearly stated on the documents; the applicant has a valid ABN registered for GST (unless legitimately exempt). ABN details are publicly available from the Australian Business Register website www.abr.gov.au.

In all cases, the most recent tax returns / financials should be no more than 18 months old, regardless of when the lodgement of tax returns is due ie tax returns at 31 December, should be no older than financial year end 30 June of the previous year.

### 10.1.4 Self-employed individuals paying self PAYG

Self-employed borrowers who pay themselves PAYG from own company / trust, and meet the below eligibility criteria, need only provide the standard documentation for a PAYG borrower (refer section *PAYG Applicants*).

Eligibility criteria:

1. Loan in individual/s name
2. Self-employed borrower paying themselves PAYG wage / salary, with payslips available & / or salary credits clearly shown on bank statement
3. Employment category is one of the following:
    a. Accounting
    b. Architect (new category in Justice, coming soon)
    c. Consulting & Corp. Strategy
    d. Education & Training
    e. Engineering
    f. Government/Defence
    g. HR & Recruitment
    h. I.T. & T.
    i. Legal
    j. Medical & Dental
    k. Science & Technology
    l. DLA Discretion to accept other employment categories not listed above where all other criteria is met.

Where other business income such as dividends, trust distributions etc is required to support the individual applicant's serviceability, or LMI is required, standard documentation referred to in section *Self-employed applicants / companies / trusts* is to be obtained.

#### 10.1.5 Age of income documents (PAYG)

Income documents provided with an application that meet the standard condition requirements, can be relied on for final approval up to 90 days from the "Application Loaded" date shown in VX / Justice.

- If final approval has not been issued within 90 days from the "Application Loaded" date, Borrower confirmation there has been no changes to the information provided in the original application can be obtained in lieu of updated documents. This will be considered valid for a further 90 days.
- If final approval has not been issued within 6 months of the "Application Loaded" date, an updated application form and supporting documentation is required.

Where any Borrower's employment and / or income details have changed, the new employment and / or income details must be provided with documentation to support that change eg if Borrower changed jobs, details of new employment and evidence of current income is to be provided.

## 10.2 Verification of employment

### 10.2.1 PAYG applicants

A borrower's employment is considered to be verified where satisfactory income verification documentation has been provided to support income used for serviceability (as per section *Income verification*).

### 10.2.2 Self-employed – employment verification

A self-employed borrower's income is considered to be verified where satisfactory documentation to support income has been provided, as per section *Self Employed applicants / companies / trusts* or *Self-employed individuals paying self PAYG*.

Where documentation provided is not considered satisfactory, or requires clarification of anomalies identified, borrower's accountant may be contacted to verify the details of the documentation provided. Details verified should be recorded on file and / or on Borrower Employment & Income Verification form.

# 11 Acceptable income types

## 11.1 Acceptable sources of income

The following is a guide to acceptable income for Firstmac for the purpose of calculating debt service capacity.

For loans requiring LMI, the requirements of the mortgage insurer must also be observed whether they are consistent with provisions in this policy or not.

| **Income type** | **Max % allowable for servicing** | **Guidelines & Requirements** |
|---|---|---|
| PAYG Salary and wage – base income for full time, part time, contract (PAYG) | 100% (90% for non-residents and for any acceptable foreign sourced income) | Gross salary, net of superannuation.<br>If short term contract, copy of current Contract and / or most recent financial year PAYG Summary may be required. |
| Casual / Second job – base income | 100% | Gross salary, net of superannuation, annualised over 48 weeks.<br>Payslips provided should show minimum 6 months YTD income. Where the payslip provided does not show YTD earnings, or the YTD covers a period less than 6 months, the 'Tax Ready' PAYG income statement for the prior tax year should be provided. Alternatively, the last payslip for the prior tax year issued by current employer may be acceptable, provided it shows YTD income. The actual commencement date of current employment may be |

| | | |
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| | | needed to ensure the most accurate serviceability result is achieved. |
| Salary sacrifice / packaging, deductions (addback) | 100% | Non-compulsory regular pre-tax deductions such as salary sacrifice arrangements shown on payslips (e.g. non-compulsory superannuation payments, loan repayments, or other living expense repayments), can be added to taxable income if needed to support serviceability.<br><br>Where an ATO income statement or PAYG Summary is used to determine income for serviceability, 53% of the reportable fringe benefits amount linked to salary sacrifice arrangements shown can be added to gross payments amount.<br><br>Loan commitments associated with the salary sacrifice must be shown as an ongoing liability.<br><br>Other common non-compulsory deductions such as social club fees, union fees etc may also be added back to gross income. |
| Overtime / Shift and other allowance | 100% | Must be regular over minimum of last 12 months and / or a condition of employment.<br><br>Most recent financial year Tax Ready ATO income statement or PAYG Payment Summary required to support.<br><br>Where overtime/allowance is not a condition of employment and / or is not considered regular or typical for the employment type / industry, % adopted may be reduced. |
| Commission / Bonus | 100% | 100% may be considered for servicing provided it is a permanent part of income and must be evidenced by:<br><br>• payslips; and<br><br>• most recent financial year Tax Ready ATO income statement or PAYG Payment Summary. |
| Car Allowance | 100% | Must be a permanent part of income; must be evidenced by payslips and is to be shown as taxable income.<br><br>Where applicable, corresponding car loan / lease payment must be shown as an ongoing liability. |
| Fully maintained car | N/A | Up to $5,000 pa added to gross income, provided the fully maintained company car is part of the employment contract / conditions. Vehicle must be fully maintained by the employer (e.g. insurance, registration, running costs, etc.) with no restrictions on personal use; to be evidenced by letter from employer. |

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|---|---|---|
| Parental leave income (employer or government paid) | 100% | Lower of (a) parental leave income being paid or (b) return to work income, can be used for serviceability provided the borrower is returning to work for the same employer, income is currently being paid, and will continue to be paid until the applicant's return to work date.<br><br>Child care expenses that will apply upon return to work must also be included in the declared living expenses.<br><br>All details to be confirmed by employer in writing, including:<br>• Employer acknowledging the borrower's intention to return to work<br>• Details of the income paid during parental leave period<br>• Return to work date, employment status (i.e. full time or part time and hours) & income.<br><br>Firstmac Credit discretion – where the return to work income is higher than parental leave income & is required to support serviceability; and / or there is a gap between the current income received ceasing & return to work date; the return to work income can be considered provided return to work date is not more than 60 days after date of settlement, and borrower has sufficient savings to cover any shortfall on all post settlement commitments and declared living expenses |
| Self Employed (non-PAYG) Individual borrowers and Company borrowers | 100% of most recent year's taxable income, or 120% of the previous year's taxable income, whichever is lower. | Minimum of the last two (2) years income should be considered when assessing serviceability.<br><br>Current ABN to be provided to confirm self-employment (2 years minimum term of registration).<br><br>If income has varied by +/- 20% or more over the last 2 years, the reason for the variation should be noted and taken in to consideration when assessing income relied on for serviceability.<br><br>Net Profit Before Tax (NPBT) is used for serviceability where the Company is the borrower.<br><br>For loans to individuals, the assessment of the company / business income is to ensure the company is trading profitably & can continue to meet ongoing commitments, including the income paid to the individual borrower that is relied on for serviceability eg dividends; directors fee; etc. Company NPBT is not relied on for serviceability of a loan in the individual's names. |

<table>
<tr><td></td><td></td><td><u>Allowable Add-backs</u><br><br>In certain cases, some expenses may be added-back to the NPBT:<ul><li>Director’s income/salaries (where not already included in calculations);</li><li>Director’s superannuation contributions in excess of the SGC (Superannuation Guarantee Charge) applicable for that year;</li><li>Business depreciation to a maximum of 20% of total assessable income.</li><li>Interest charges on loans being refinanced;</li><li>Non-recurring expenses (may need to be confirmed by accountant where financial statements do not clearly identify as a non-recurring expense)</li></ul></td></tr>
<tr><td>Self-funded retirees / Superannuation</td><td>100%</td><td>Superannuation payments such as allocated pension or similar.<br><br>Current payment amount being received to be used for serviceability, evidenced by 3 months bank statements clearly identifying the source of the payment & confirming regular receipt; or a Statement from the provider no older than 3 months confirming the payment / benefit amount.</td></tr>
<tr><td>Investment income</td><td>Interest – 100%<br><br>Dividends – 80%</td><td>Acceptable provided income is assessed as being reasonably sustainable over the long term.<br><br>Use the lower investment income figure from the 2 most recent years tax returns, provided:<ul><li>The current investment value is consistent with the investment value held for the period of the tax returns; and</li><li>Investment is still held in Borrower’s name at the time of application, evidenced by shareholding statement; or investment statement</li></ul>Note - franking credits are not to be included in the amount used for serviceability.</td></tr>
</table>

| | | |
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| Government benefits and pensions (eg Family Assistance Part A&B; Pension; Disability / Carer's allowance; Veteran Affairs pension) | 100% | Payment must be considered ongoing for next 5 years at the time of application, evidenced by:<br>• 3 months bank statements clearly identifying the source of the payment & confirming regular receipt; or<br>• Letter from paying authority (eg Centrelink) issued within the last 3 months<br>Note:<br>• Carer's payment / allowance – only considered if paid for care of the borrower's spouse or child (including adult child).<br>• Family Assistance Part A & B – only considered for borrower's dependent children who are 10 years of age or younger. Annual payments considered with Centrelink letter stating annual payment, tax return and ATO NOA from same year required to ensure consistent with income assessed for this loan application.<br>• Parenting payment – age of dependent child is based on payment type; only considered as follows:<br>  ○ Single parenting payment – youngest child is 8 years of age or younger;<br>  ○ Partnered parenting payment youngest child is less than 1 year old |
| Child Support<br>(non-taxable income) | 100% | Child support & maintenance agreement must be registered with Child Support Agency (CSA) and payment is considered to be ongoing for the next 5 years (ie dependent children 12 years of age or younger at the time of application), evidenced by:<br>• Current letter or notice of assessment from Child Support Agency including amount payable, names and date of birth of each eligible child; and / or<br>• 3 consecutive months bank statements clearly identifying the source of the payment and confirming regular receipt<br>Private child support arrangements are not an acceptable income source for serviceability. |

| | | |
|---|---|---|
| Rental income – residential property | Up to 80% | If multiple sources of evidence are provided, higher actual rent received may be used if the property is rented through a real estate agent with a copy of a current tenancy agreement or rental statements provided. Otherwise, the lowest rental amount should be used.<br><br>% of rental income used for serviceability may be reduced, or excluded from serviceability, where the rental income is considered volatile (eg student accommodation; inflated rent due to lack of rental property in an area; reduced rent due to oversupply of rental property in an area; local economy influenced by mining industry; etc).<br><br>Residential property:<br>• 80% of confirmed gross rental income for a standard residential tenancy<br>• 65% of confirmed gross rental income for short stay / holiday rental (eg Airbnb; Stayz etc)<br><br>Rental income to be evidenced by:<br>• valuation report (for security property); or<br>• most recent rental statements or current lease agreement from real estate agent managing the property; or<br>• 3 months bank statements clearly identifying the rental credits (if privately managed and credits to bank account do not clearly identify the rental payment, current tenancy agreement & most recent tax return including rental schedule); or<br>• most recent tax return; or<br>• rental appraisal from local independent real estate agent (where property being purchased, or not previously rented).<br><br>Where the Borrower is moving out of their current owner-occupied property to 'board' or 'live with parents', and serviceability is reliant on new rental income and / or investment loan interest addback from previously owner-occupied property, rental income for that property is to be evidenced by:<br>• tenancy agreement through an agent that has already commenced (or due to commence within 30 days of settlement); or |

| | | |
|---|---|---|
| | | • privately managed tenancy agreement + 3 months bank statements showing the rental credits. |
| Rental income – commercial property | Up to 70% | Up to 70% of Gross rental for commercial property may be considered where evidence provided confirms ongoing lease in place.<br><br>If the actual net rental amount (ie gross rental less expenses, excluding depreciation / interest shown in tax return) is less than 70% of gross rental, the lower figure should be used.<br><br>% of rental income used for serviceability may be reduced, or excluded from serviceability, where the rental income is considered volatile (eg local economy influenced by mining industry; etc). |
| Rental income – 'granny flat' | Up to 80% | Up to 80% of Gross rental for 'granny flat' considered where evidenced as follows:<br><br>Existing rental income from existing granny flat:<br><br>• If managed by independent real estate agent, recent rental statements; or<br><br>• If managed by owner, current tenancy agreement and credits to bank account clearly identifying the tenant / rental payment being made over min 3 months. If credits to bank account not available / do not clearly identify the rental payment, current lease agreement and most recent tax return including rental schedule.<br><br>• If property taken as security and full valuation required, Valuer to show separate granny flat income in valuation report.<br><br>New granny flat / not previously rented – property taken as security:<br><br>• New construction of granny flat on property taken as security:<br>  ○ Valuer to show separate granny flat income in valuation report<br><br>• New purchase with existing granny flat:<br>  ○ If currently leased – details of rental income to be provided (eg current tenancy agreement or current tenancy details shown in COS); Valuer to show |

| | | |
|---|---|---|
| | | separate granny flat income in valuation report<br>  ◦ If not currently leased – Valuer to show separate granny flat income in valuation report<br>• If AVM or Desktop valuation completed, rental appraisal from local independent real estate agent should be provided<br>New granny flat – property NOT taken as security:<br>• Proposed rental income not be relied on for serviceability |
| Investment loan interest add back – Investors | 100% | Add-back of deductible interest paid on investment home loans (excludes overseas investment home loans), calculated at a specified maximum rate as determined by Firstmac (auto calculated in Firstmac Servicing Calculator).<br>The investment loan amount used to calculate the add-back is to be based on:<br>• Refinance – the loan amount being refinanced that is for residential investment purposes, including investment purchase costs originally capitalised into the loan.<br>• Purchase – all borrowed funds used for the investment property purchase, including investment purchase costs capitalised into the loan.<br>• Ongoing residential investment loans with other lenders – total loan amount in Assets &Liabilities statement. |
| Unacceptable Income type | | The following income or similar sources are not acceptable for serviceability:<br>• Government benefits or similar, not considered ongoing for 5 years<br>• Government unemployment benefits; youth or student allowances etc<br>• Workers Compensation<br>• Income from boarders<br>• Undeclared or cash income that could not be evidenced in tax returns |

# 12 Confirmation of debts

## 12.1 Non-disclosure of debts

Non-disclosure of debt may sometimes be identified when investigating credit report enquiries, or other supporting documentation provided

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

## 12.2 Current debt position

Mortgage loans should be listed individually on the asset and liability statement identifying property address, lender, loan amount and repayments.

Line of Credit Facilities, Personal Loans, Leases and Hire Purchase agreements, and Credit Card limits should be listed individually on the asset and liability statement and include the lender, loan amount and repayments.

## 12.3 Council rates, body corporate charges, other statutory charges

For loans requiring LMI, where an existing debt is being refinanced or a further advance is provided, 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.

# 13 Savings history and proof of deposit and source

## 13.1 Evidence of funds to complete

The source of funds to complete the transaction must be clearly identified on the application.

In some instances, additional information may be required as to the actual source of the funds eg may be from sale of a property or borrowed funds.

For loans with LVR > 80%, evidence such as bank statements, security deposit receipts etc. is to be provided with the application.

## 13.2 Gifted funds

Gifted funds from an immediate family member (ie parents, grandparents, siblings or children of the borrower) are generally acceptable as part of the borrower's equity. Gifted funds may form the balance of the required funds to complete, or may be used towards legal fees.

The borrower must provide a written statement from the person/s gifting the funds declaring that it is a true gift and not repayable. For loans requiring LMI, the written statement must be a statutory declaration.

If the gifted funds are repayable, full terms of the arrangement must be included in the written statement and included in serviceability calculations where applicable.

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

### 13.3 First Home Owners Grant (FHOG)

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

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

## 14 Assessing the ability to repay

Establishing the borrower's true debt servicing capacity is vital to assessing ability to repay. It is not in the best interests of the borrower, or Firstmac, to take on more debt than they can manage.

If the borrower cannot demonstrate an ability to repay, the application would not normally be approved.

Only in clearly justifiable circumstances should the application be considered based wholly or partly on the repayment capacity of a guarantor (refer section *Third party mortgages/guarantees*). 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 borrower has little or no income. Instead, the borrower offers a guarantee by another person (must be common law spouses), or for loans to companies a related business (directors / shareholder must be the applicant and / or common law spouse), in support of the borrowing. In these circumstances, the guarantor must obtain independent legal advice.

When assessing loan applications supported by a guarantee, the guarantor must have the ability to meet the borrower's commitments in the event of the borrower defaulting. Guarantors are to 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.

A person must not be included as a borrower or a guarantor to a loan merely to add weight to the loan application eg borrower of convenience.

## 15 Loan serviceability calculation

Firstmac uses the Net Disposable Income (NDI) method to assess a borrower's ability to meet regular fixed commitments. The NDI ratio is the ratio of net disposable income (after tax and living costs) to total fixed commitments.

Serviceability is to be calculated using the Firstmac Servicing Calculator with minimum NDI 1.00:1 required.

Loans requiring LMI – the relevant LMI's serviceability calculator is to be used, however a minimum NDI of 1.00:1 must also be demonstrated on the Firstmac Servicing Calculator.

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

- All regular debt repayment commitments (for Line of Credit loans, assume the loan is drawn to the credit limit)
- Rent / board (may be excluded if ceasing on loan approval; if board is ongoing, refer notional rental expense section of this policy)
- Any other fixed regular monthly commitments such as HELP/HECS debt repayments; Child Support etc (to be shown as a liability, not a living expense)
- Minimum of 3.227% on the total credit card limit (equivalent to repaying the fully drawn limit over a 3 year term)
- Living expenses/costs (refer *Living Expenses*)
- Other discretionary commitments (these vary according to a borrower's circumstances; any material items should be considered and taken into account in assessing).

### 15.1 Firstmac Serviceability Assessment Rate

The Firstmac Serviceability Assessment Rate (ie default servicing rate) for variable rate loans, and new loans with a fixed interest rate period of less than 5 years, incudes an assessment rate buffer to allow for future interest rate movements and / or unexpected expenses.

The Firstmac Assessment Rate applied in servicing is:

- New lending:
  - Loan splits that have a variable interest rate, or a fixed rate term of < 5years – the higher of (1) the weighted average interest rate of total loan being sought plus an assessment rate buffer of 2.00% pa; or (2) the assessment rate floor of 6.25% pa.
  - Loan splits that have a fixed rate term of 5 years – the actual rate is used as the assessment rate, with no buffer or floor rate applied.

- Existing settled / ongoing loans (other lenders)
  - Firstmac funded loans – the higher of (1) actual loan rate + an assessment rate buffer of 2.00% pa; or (2) the assessment rate floor of 6.25% pa.
  - Other financial institution (OFI) loans – assessment rate 8.25% pa
- Investment loan interest addback – where no OFI investment loans are held, the same assessment rate as new lending is used to calculate the investment loan interest add-back; otherwise, the lower of the assessment rate for new lending and the OFI assessment rate is used.

## 15.2 Proposed and ongoing home loan repayments

For servicing, a Principal and Interest (P&I) repayment is calculated for the new proposed loan amount, and all ongoing home loans held by the borrower with Firstmac, and other financial institutions.

For loans with Interest Only (IO) repayments, the Principal and Interest (P&I) repayment is calculated using the residual Principal and Interest (P&I) loan term eg for a 30 year loan term with IO repayments for the first 5 years, the P&I repayment is calculated over the residual P&I term of 25 years.

### 15.2.1 New loan amount

The Principal and Interest (P&I) repayment for the new loan amount is calculated using the Firstmac Assessment Rate, and a loan term determined by the repayment type selected for each loan split / portion of the new loan:

- Principal & Interest (P&I) portion – proposed repayments calculated using the actual loan term
- Interest Only (IO) portion – proposed repayments calculated using the remaining P&I loan term ie the actual loan term less the IO period

### 15.2.2 Ongoing home loans – Firstmac and other financial institutions

P&I repayments for all ongoing home loans held by the borrower, with Firstmac and other financial institutions is calculated using:

- Assessment Rate applicable to the application;
- The loan amount shown in the A&L, which is to include the loan balance + the amount available to redraw on the loan;
- A default loan term based on the repayment type:
  - P&I = 30 year loan
  - IO = 25 years

## 15.3 Living Expenses

The cost of living may vary based on the borrower's household and / or family unit. Reasonable enquiries are to be made about a borrower's variable living expense, and are to include the amount the borrower spends on:

- General Living Expense –basic essential items such as groceries, clothing, utilities, phone/mobile, internet, motor vehicle/transport, rates, general insurance (car / home), basic education costs for dependents; and
- Education fees / costs – additional education costs for dependents eg private school fees; and
- Childcare – out of pocket expenses associated with childcare; and
- Private Health Cover

### 15.3.1 Household Expenditure Measure (HEM)

The Household Expenditure Measure (HEM) will be used as a guide for the comparison of general living expenses as stated by the borrower.

HEM data is subscribed through and provided by the Melbourne Institute of Applied Economic and Social Research, Melbourne.

The HEM method adopted is based on the borrower's 'geographic location' (ie where the borrower lives in a Capital city, or not) and 'household income' (income bands).

### 15.3.2 Living expenses used for serviceability calculations

The Firstmac Servicing Calculator automatically calculates the total living expense to be applied based on the amounts entered, and adopts the higher of:

- The total of the borrower stated 'General living expense + Childcare' or 'HEM living allowance', whichever is higher;

  **PLUS**

- 'Educations fees/costs', 'Private health cover' & 'Other living expenses'

## 15.4 Notional Rental Expense

Where the borrower is purchasing an investment property, and is boarding with family (including parents) or friends either rent-free or at an unusually low cost, a notional rental expense may be applied.

- 'Boarding' with 3rd party who is not the Applicant's spouse/partner as described below, higher of borrower stated board / rent expense or notional rental expense below is to be applied:
  - $500 / month for a Single – in addition to standard living allowance, existing commitments etc.
  - $650 / month for a Couple – in addition to standard living allowance, existing commitments etc.

- 'Living with spouse/partner' – where a sole applicant living with spouse/partner who is not an applicant, where the rent expense/mortgage payment for the property they are living in is in the spouse/partner's name only, notional rental expense does not need to be applied.

## 15.5 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.

If the borrower shares a positive income source (other than from a joint investment property that has a corresponding investment loan) with parties who are not part of the loan application, the borrower's ownership percentage will be applied to the gross joint income. Evidence may be required to ascertain the ownership percentage.

### 15.5.1 Joint investment property with non-applicant

If the borrower shares an investment property and corresponding investment loan with parties who are not part of the loan application:

- 100% of the investment loan repayment must be included in serviceability;
- 100% of the rental income can be used in serviceability;
- Borrower's percentage ownership is to be applied to the investment loan interest addback calculation.

Where there is no corresponding joint investment debt, the borrower's ownership percentage is to be applied to the rental income.

Evidence may be required to ascertain the ownership percentage.

## 15.6 Borrower with a non-applicant spouse / partner

Where a borrower is the sole applicant on a loan, and has a spouse / partner who is not an applicant, full household living expenses are to be obtained from the borrower.

Where the non-applicant spouse / partner has income that is used to contribute to household living expenses and commitments, consideration may be given to include that income to demonstrate serviceability, provided there is a reasonable explanation for the loan structure (eg Accountant recommendation to maximise taxation benefits; Legal advice for asset protection; property owned prior to relationship).

This approach is at the discretion of Firstmac Credit and in some cases, may be more appropriate to include the non-applicant spouse as a borrower.

When including non-applicant spouse's income for serviceability, full details of the non-applicant spouse's employment history and income are to be obtained, and must meet standard employment and income acceptability criteria (including time in current employment). Standard supporting documentation to confirm income and employment is required.

All ongoing liabilities and commitments held in the applicant's name solely, jointly with the non-applicant spouse, or in non-applicant spouse's name solely, must be disclosed.

# 16 Security

All loans must be secured by registered first mortgages over acceptable real property, which includes 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 with a signed fixed cost building contract.

Units/Apartments – where car spaces or garages attached to a unit/apartment are on a different title to the actual residence, a first mortgage over the additional title for the car space or garage must also be taken.

## 16.1 Geographic location

Security properties can be considered within all states and territories of Australia. The maximum loan amount / LVR is determined by the postcode classification shown in the shown in the Firstmac Acceptable Security location guide (refer section *Loan amount*).

Security in a postcode not listed in the Firstmac Acceptable Security location guide, will be considered on a case by case basis, and may be subject to LMI approval.

Firstmac may impose additional restrictions on certain postcodes from time to time.

## 16.2 Security concentration

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

## 16.3 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. Concentration limits may be set on security type (e.g. vertical/horizontal development), geographic location, and product.

## 16.4 Unacceptable securities

- Income producing properties, including but not limited to, rural properties or farms, backpacker hostels or boarding houses
- Properties not connected to water (except in clearly recognized urban areas) and / or national electricity grid
- Properties with an area in excess of 10 hectares

- Properties designed, zoned, or used for purposes other than residential use, such as commercial, industrial, retail (excluding residential home units in a commercially zoned development)
- Properties to be constructed by an owner-builder (in whole or part)
- Properties that are unique, or have restrictive usage
- Properties located on an unsealed road and / or considered remote / bush style / shack.
- Properties located on an island without sealed road connection to mainland
- Security boundary located within 50 metres of High Voltage Transmission lines
- 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 dwellings exceeds 2 units or dwellings
- A strata title home unit with a living area less than 50 sqm (excluding balcony and car space) in non-metropolitan locations; or less than 40 sqm (excluding balcony and car space) in metropolitan locations
- Any house or duplex / auxiliary unit with a living area less than 50 sqm
- Studio Apartment or bed-sitter (no separate bedroom)
- Serviced apartments, dual key apartments and / or Resort style dwellings
- Units in a strata hotel/motel
- Under a “time share” arrangement
- Kit homes
- Retirement homes and villages
- NDIS properties
- Leasehold properties (other than Crown Land in the ACT, with a term of at least 5 years past the maturity of date of a loan), including where Title is leasehold strata
- Company title / Company Share Title (VIC); Purple Title (W.A.), or Moiety Title (S.A.)
- Limited Title (any defects)
- Properties with life tenancy
- Properties subject to the Western Lands Act
- Properties adversely impacted by mines subsidence, land slip or contaminated land

Any exceptions to unacceptable security may be considered on case by case basis by Firstmac Credit.

## 16.5 High Density apartments / units

A High Density unit is a strata titled home unit or apartment in a development comprising more than 6 floors that is in a postcode classified as High Density postcodes as per the Firstmac Acceptable Security Location guide.

The following apply to these types of security:

- Minimum floor size of 50sqm (40sqm in metropolitan locations) in living area, excluding balconies and car space
- Valuation should include comparable sales outside the development, and details of any resales within the development
- Maximum LVR 80% (additional LVR and concentration restrictions may apply to individual developments)
- Home unit or apartment developments comprising 6 floors or less are not defined as high density, regardless of whether they are in a high density postcode, or not

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

A final valuation confirming property is fully complete is required prior to settlement of properties purchased off-the-plan.

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.

The increased loan amount requested must not exceed the purchase price as per the original contract of sale.

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.

### 16.6.1 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.

### 16.6.2 Valuation – increased borrowings

An updated valuation will be required to support the application for increased borrowing. The valuation must specifically address comparable sales 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.

### 16.6.3 LVR (Lending Value Ratio)

The LVR may be based on the updated valuation figure. Where loans are mortgage insured, they must be in line with Mortgage Insurer policy with respect to such lending. All other policy terms and conditions for the lending remain unchanged.

### 16.7 Multiple dwellings on single title / dual occupancy

Dual occupancy properties in which no more than two residential dwellings are held on one certificate of title may be considered. The dwellings may be ‘in line’ such as a duplex, or separate dwellings. Where the property is a duplex, or a primary unit with attached auxiliary unit, the minimum living area for each unit should be 50 square metres.

The valuation report must include comparable sales of other dual occupancy properties in the area within the last 6 months.

### 16.8 Display Home

It is not unusual for a builder/developer to construct a display home for marketing and advertising purposes and subsequently sell the property to an investor on a lease back arrangement. Where display homes are being considered as an exception, the following applies:

- Display home located in NSW, or in a ‘display village’ in any state or territory, are excluded
- Any restrictive zoning or covenants, or any other restriction on the sale or renting, location of the property must be assessed and acceptable to Firstmac
- Detailed information on restrictions and/or covenants on the property
- Maximum LVR is 80%
- Mortgage insurance may be required
- There must be sufficient mitigants to support a display home and the valuation report must include comments regarding the terms of the lease back arrangement
- Rental income used for serviceability may be limited to the amount that would be achieved under a standard residential tenancy agreement.

### 16.9 Relocatable Home

This type of security is where an existing dwelling is purchased and then relocated onto another block of land. Firstmac consider relocatable homes to be acceptable under standard policy however, an assessment of a relocatable home cannot be completed until the property has been installed in the new location and services connected, with evidence property complies with Local Government Authority requirements to be provided.

### 16.10 Units in developments subject to a management agreement/letting pool

Security property located in developments which are subject to a management agreement / letting pool may be considered, provided it is not resort/hotel accommodation aimed at holiday makers, can be removed from the management agreement/letting pool and permanently occupied (owner occupied or residential lease agreement).

If the security property has a managed and / or pooled rental agreement, the valuation must be on the basis of vacant possession, without taking in to account the serviced apartment lease or furniture packages. The Valuer comments must acknowledge the lease agreement in place and specifically identify / provide details of provision for borrowers to remove the property from the rental pool, and whether the property can be permanently occupied (owner occupied or residential lease agreement).

### 16.11 Sales without the intervention of an agent

Sale of a property without the intervention of an agent is considered to be an arm's length transaction provided there is no relationship between the vendor and the purchaser.

Firstmac will consider loans for purchases where there is no agent involved in the sale 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.

### 16.12 Non-arm's length transactions

Relates to the sale of a property where there is a relationship between the parties (purchaser and vendor).

This includes advantageous/favourable purchases from a family member at a discounted price or where a vendor is selling the property at a discounted price to a person to whom he/she is indebted.

Firstmac will consider loans for non-arm's length transactions, provided the valuer has commented within the valuation report acknowledging the relationship between the parties, 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.

For advantageous/favourable purchases from a family member, the LVR may be calculated on the market value shown in the valuation report however the loan amount should not exceed the purchase price of the property. Where there is no formal contract of sale, the 'purchase price' will be based on the consideration amount shown on Transfer documentation, or other documentation provided to support the transfer of ownership eg Family Law Court Agreement.

## 17 Security Valuations

An acceptable valuation is required for all security properties.

The following valuation types are acceptable subject to eligibility and acceptability criteria:

- AVM (Automated Valuation Model)
- EVR Desktop
- Full valuation

AVM is not available for SMSF loans; AVM and Desktop valuations are not available for Construction loans, security in new estates or off the plan, or any loan requiring LMI.

## 17.1 AVM

AVM is an automated valuation model, provided by Corelogic (ValEx) using various data inputs and analytics to provide an assessed value of the security property on the specified date.

The AVM results include a value range, an AVM Value (based on the mid-point of the range), and an FSD (Forecast Standard Deviation).

The FSD represents the probability that the AVM Value will be +/- the FSD% of the sale value. The lower the FSD, the more accurate the AVM value should be relative to the final market value.

### 17.1.1 AVM Eligibility & Acceptability criteria

- Security located in Category 1a and 1b as per the Firstmac Acceptable Security Location list.
- Maximum security Value:

| | |
|---|---|
| House/ Unit / townhouse in NSW or VIC | $1,500,000 per security |
| House / Unit / townhouse in all other States / Territories | $1,250,000 per security |

- Maximum LVR and FSD:
    - Maximum LVR 80% with FSD $\leq$ 10%
    - Maximum LVR 78% with FSD $\leq$ 12%
    - Maximum LVR 75% with FSD $\leq$ 15%
- Refinance – AVM value adopted as market value
- Purchase – Contract of Sale purchase price adopted as market value where validated by AVM ie purchase price to be within Upper and Lower range shown on AVM

## 17.2 EVR Desktop

EVR Desktop must be prepared by a registered licensed valuer acceptable to Firstmac. The valuer assesses the market value through local knowledge of the security location, information available through data sources, and other research methods adopted by the valuer, without physically inspecting the property.

A valuer may deem an EVR Desktop valuation is not suitable due to lack of data and recent imagery available on the subject property and surrounding sales; or the property may have characteristics which would make it ‘unusual’ in relation to other properties in surrounding area. In these cases, a full valuation is required.

### 17.2.1 EVR / Desktop Eligibility & Acceptability criteria

- Security located in Category 1a and 1b as per the Firstmac Acceptable Security Location list

- Maximum security Value:

| | |
|---|---|
| House/ Unit / townhouse in NSW or VIC | $1,500,000 per security |
| House/ Unit / townhouse in all other States / Territories | $1,250,000 per security |

- Maximum LVR 80% for home loan (refinance & purchase)
- Maximum LVR 70% for SMSF loans with residential security

## 17.3 Full Valuation report

Where the AVM or Desktop criteria is not met, a Full Valuation is required.

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. Valuations must comply with the valuation standards as set out in Annexure 2.

Generally, Firstmac will not accept valuation reports more than 90 days old (from the date of inspection) for final assessment of a loan, but may consider exceptions to this policy upon application, with the consent of the Lender's Mortgage Insurer, where applicable.

The valuation report for each security must be no more than 180 days old (from the date of inspection) at settlement.

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
- Firstmac Assets Pty Ltd and its associated entities
- Firstmac Fiduciary Services Pty Ltd
- Helia Insurance Pty Ltd
- 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.

The valuation report should be reviewed 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.

The valuation report is not to be provided to any third party e.g. a broker or the borrower/s, as the valuation is for mortgagee purposes only.

## 17.4 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 the purchase price is 10% or more above the valuation amount 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 borrower must acknowledge the variation by signing a Valuation Variation Acknowledgement prior to settlement to signify that they acknowledge the variation and still wish to proceed with the loan.

The valuation amount must not be quoted to the borrower 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.

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.

## 17.5 Builder / Developer Sales in Queensland – Form 8

The Property Occupations Form 8 forms part of the contract of sale for Queensland contracts.  The Form 8 deals only with Agent's disclosed referrals and benefits received.

Where applicable, the fully completed Form 8 included with the full copy of contract of sale is to be provided to the Valuer. The Valuer is to confirm in the valuation report that they have sighted the Form 8 and acknowledge the benefit or value noted in the disclosure to prospective buyer.

### 17.6 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 Firstmac Valuation Standards and Valuer Accreditation 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.

## 18 Loan purpose

Applicants must provide full details of the loan purpose to assist in the determination of the loan's status to ensure responsibilities NCCP are met.

The stated purpose must align with the proposed loan amount and all other aspects of the loan.

Full details regarding the proposed use of the funds provided must be clearly stated in the application in all cases – simply stating "future investment" or "personal use" without further context is not sufficient.

Additional documentary evidence may be required to support the stated loan purpose and Firstmac reserves the right, to control the disbursement of loan proceeds in accordance with the stated purpose.

### 18.1 Purchase owner occupied or investment residential property

Purchase of new (fully completed prior to settlement) or existing dwellings to be used for owner occupied or investment purposes.

Purchase of vacant land will only be considered with a fixed price building contract, as a construction loan.

### 18.2 Construction loans

Construction loans are available where the purpose of the loan includes:

- purchase or refinance of vacant land with a fixed price building contract for construction of a residential dwelling in place at time of application;

  or

- major or structural renovations, or other improvements to the property held as security where the property is valued on an ‘as if complete’ basis (may include refinance, prior to commencement of construction / renovations).

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

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

The borrower’s contribution toward the fixed-price building contract, and / or any extras / variations, are to be paid by the borrower from their own funds prior to payment of any claims for progress draws from the loan.

Firstmac will retain sufficient funds to complete construction (ie cost to complete), as estimated by Firstmac’s valuer, irrespective of the progress payment schedule and / or the wording of the building contract.

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 immediately on completion.

The construction period is limited to a period of 12 months from settlement date. If construction is not completed within 12 months of the settlement date, an additional 0.50%pa will be applied to the construction variable interest rate applicable to the loan at the time.

A maximum of 5% of the fixed-price building contract may be released to the builder for the deposit 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.

Prior to the first drawdown Firstmac require:

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

Prior to final drawdown, Firstmac require:

- Certificate of Occupancy from the relevant Local Authority or council

Split options and redraws are not available on construction loans.

The construction loan will revert to a standard home loan product once construction is fully complete and the loan is fully drawn.

## 18.3 Home renovations / improvements

Where the loan purpose includes an amount for non-structural home renovations or improvements, provided the current ''as is valuation'' of the security property can support the proposed amount within current LVR policy, loan draw-downs for these renovations or improvements may not need to be controlled by Firstmac.

A construction loan is to be considered where:

- The security property needs to be valued on an 'as if complete' basis to support the proposed amount within current LVR policy;

or

- The security property 'as is' value is sufficient to support the proposed amount within current LVR policy and the value of work to be completed is > $100,000.

## 18.4 Refinance existing owner occupied or investment residential property loans

Loans to refinance existing loans from other lenders are acceptable however, good conduct of the credit facility being refinanced is expected.

Comprehensive credit reporting and the borrower's Equifax score is relied on to support satisfactory repayment history of loans being refinanced, in lieu of refinance statements.

Refinance statements are not required where all borrowers on an application have an Equifax score satisfactory to Firstmac, and the borrower's credit report shows either no defaults, or non-financial default that meets the criteria shown in *Credit History*.

## 18.5 Personal debt consolidation

Loans to consolidate personal debt from other lenders are acceptable however, good conduct of the credit facilities being consolidated is expected.

Comprehensive credit reporting and the borrower's Equifax score is relied on to support satisfactory repayment history of loans being refinanced, in lieu of refinance statements.

Refinance statements are not required where all borrowers on an application have an Equifax score satisfactory to Firstmac, and the borrower's credit report shows either no defaults, or non-financial default that meets the criteria shown in *Credit History*.

## 18.6 Equity release / cash out

Any loan, or part thereof, that is released / disbursed directly to the borrower is considered cash out, regardless of the proposed loan purpose.

The purpose of the use of funds must be clearly identified in all cases. Generic loan purposes such as Future Investment or Personal Use are unacceptable without additional detail from the borrower.

For cash out amounts up to $100,000 with LVR ≤ 80%, no further supporting documentary evidence for the use of funds is required where the borrower provides sufficient clear details relating to the proposed use of the funds.

Where the cash out amount is > $100,000, additional documentation is required to evidence use of funds (eg contract of sale; quotes / invoices). Once acceptable evidence is provided to support the loan purpose, controlled disbursement is not required unless the loan approval is reliant on the funds being used specifically for that purpose e.g. funds to purchase rental property not taken as security & serviceability is reliant on the proposed rental income.

Where the loan purpose is refinance, and borrower has redraw available in the home loan being refinanced, cash out to retain the redraw position currently held with the outgoing lender can be considered. Evidence of the current redraw position with the outgoing lender is to be provided if the amount is > $100,000, and the cash out amount should be disbursed to the new loan / offset sub-account at settlement.

## 18.7 Business use

Loans of up to $1,000,000 will be considered for the refinance of loans originally for business use; and up to $500,000 for other business purposes.

Loans with LVR over 80% require LRF (subject to all criteria in *Lender Risk Fee (LRF) – LVR > 80% and < 90%* being met) LMI (all relevant LMI criteria to apply).

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 an existing business loan, or part of an existing business loan
- Purchase of plant and equipment
- Purchase of an existing business
- Working capital ≤ $50,000

Unacceptable Loan Purposes for Business Loans:

- Repayment of shareholder/director loans

## 18.8 Any other legal purpose

Loan purposes related to consumer goods and services; travel and holidays; household and personal goods; motor vehicles; any other worthwhile purpose may be considered at the sole discretion of Firstmac and Lender's Mortgage Insurers (if applicable).

# 19 Loan amount

The maximum loan amount for each application is dependent on the location of the security property and the number of security properties for that application.

Where any application shares a common security with another application, the maximum loan amount is based on the total of those applications.

Regardless of the number of securities, the total loan amount for a single application or multiple applications sharing any common security, is not to exceed $2,000,000. The *Maximum Borrower exposure* must also be considered.

## 19.1 Postcode category

Postcodes are classified by Firstmac as either Category 1a, 1b, 2 or 3 as per the Firstmac Acceptable Security Location list. The postcode categories are based on population figures obtained from recent census data, and the geographic spread of the postcode.

Postcodes not listed are classified by Firstmac as 'non-lend postcodes' and will generally not be accepted.

### 19.1.1 Postcode sub-category

An additional sub-category may be applied to some postcodes, with restrictions on LVR, loan amount, or both.

- **'Mining'**
  - applies to some Category 3 postcodes that are 'mining towns' (local economy is predominantly reliant on mining industry)
  - Category 3 with sub-category 'Mining' restrictions:
    - Security use Owner Occupied – maximum LVR 70% and loan repayments must be P&I
    - Security use Investment – not acceptable security
- **'Do not lend'**
  - Added to postcodes where Firstmac will not accept security eg islands not connected to mainland Australia or Tasmania by road

## 19.2 Maximum LVR & Loan Amounts by Postcode location

Maximum LVRs and maximum loan amounts apply on a 'per security' basis and may vary by occupancy type (ie owner occupied or investment), loan purpose and security type.

Regardless of the number of securities offered, the maximum loan size is $2,000,000.

Where LMI is required, the relevant policy regarding maximum loan amount per security needs to be considered however, Firstmac limits above must also be met.

## Maximum LVR & loan amount per security:

| Loan / Security Type | Maximum LVR / Security Use | Maximum loan amount per Category | | | |
|---|---|---|---|---|---|
| | | Category 1a | Category 1b | Category 2 | Category 3 |
| **Home Loans – OO & INV**<br>**LVR ≤ 80%**<br>Excludes:<br>Units in a development > 6 floors in high density postcodes;<br>Construction loans | 80% – OO (P&I)<br>80% – INV (P&I)<br>70% – INV (IO) | $2,000,000 | $1,400,000 | $950,000 | $700,000 |
| | 80% – OO (IO)<br>80% – INV (IO) | $1,500,000 | $1,000,000 | $950,000 | $700,000 |
| **SMSF Loans – INV**<br>**LVR < 80%**<br>Excludes:<br>Construction loans | 70% – INV (P&I) | $2,000,000 | $1,400,000 | $950,000 | $700,000 |
| | 80% – INV (P&I) | $1,500,000 | $1,400,000 | $950,000 | $700,000 |
| **Home Loans – OO & INV**<br>**LVR > 80% ≤ 90%**<br>Excludes:<br>SMSF loans;<br>Non-resident borrowers;<br>Units in a development > 6 floors in high density postcodes;<br>Construction loans | > 80% ≤ 90% with LRF – OO & INV (P&I only) | $1,000,000 | $750,000 | Not available | Not available |
| | > 80% ≤ 90% with LMI –<br>OO (P&I only)*<br>INV (P&I or IO) | $1,000,000 | $1,000,000 | $950,000 | $700,000 |
| **Units in a development > 6 floors in high density postcodes** | 80% – OO & INV (P&I – Home & SMSF Loans;<br>IO – Home loans) | $1,000,000 | $1,000,000 | $950,000 | $700,000 |
| **Construction loans**<br>Excludes:<br>SMSF | 80% – OO & INV | $1,200,000 | $1,200,000 | $950,000 | $700,000 |
| | > 80% ≤ 90% with LMI** | $1,000,000 | $1,000,000 | $950,000 | $700,000 |

* If OO is the only security, must be P&I regardless of loan purpose; if OO & INV security, IO repayments available

** Limited product offering

## 20 Repayment types

Firstmac offers the following repayment options:

| | |
|---|---|
| Term loans | • Principal & Interest amortising over the term of the loan<br>• Blended Interest Only and Principal & Interest which allows for an initial interest only period of up to 5 years then amortising over the remaining loan term |

## 21 Loan term

| | |
|---|---|
| Principal & interest repayments | Maximum loan term available is 30 years |
| Interest only repayments | Interest only period of 5 years maximum. Overall loan term of maximum 30 years. |

## 22 Interest rate options

The interest rate options available are:

- Variable
- Fixed for terms of 1, 2, 3, 4, or 5 years (may vary from time to time)

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

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 an Offset sub-account is converted to a fixed rate loan, the Offset sub-account will no longer be available.

### 22.1 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.

## 23 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.

## 24 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 a signed direct debit authority against a nominated bank account is to be held, 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. Break costs may be payable if principal reductions are made during a fixed rate period (refer to Fixed rate break costs section of this policy).

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.

### 24.1 BSB details

Borrowers are able to credit their account using a number of methods and will require the BSB and account number (x-reference, not application number) to facilitate the transfer.

| **Transaction type** | **BSB** |
|---|---|
| Electronic transfers including direct salary crediting, internet / phone transfers | 704 997 |
| Over the counter transactions at any Bank@Post Australia Post outlet, using designated barcoded deposit book (Borrower to arrange through Firstmac Customer Service, or Online services) | N/A |

## 25 Redraw

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

For most loans a redraw may be arranged 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.

## 26 Variations and Substitutions

### 26.1 Internal refinances, additional advances and further advances

For any loan increases (top-ups) and further advances, a new application form and standard supporting documentation is required. The application will be assessed using all credit criteria current at the time of the request.

Where an updated valuation is required, the Valuation firm that completed the original valuation should be used for the updated valuation. If the value of the security has increased within 12 months of the original valuation, the Valuer should comment on the reasons for the increased value eg further improvements completed since last valuation etc.

If the original loan is mortgage insured, the mortgage insurer's requirements will need to be followed.

### 26.2 Other Variations

All variations to existing loans such as substitution of security, partial discharge of security and consents (plan of subdivision, 2nd mortgage, lease etc), 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; driver's license 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 Offset sub-account

Where a loan product includes an Offset sub-account, all loan repayments and additional payments to the loan account can be credited to the Offset sub-account. The Offset sub-account is 100% offset against the loan.

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

Borrowers will receive separate account statements for the loan account and the separate Offset sub-account.

## 29 Self-Certified (Lo Doc) loans

Self-Certified (Lo Doc) loans are no longer available. Where a borrower with an existing Lo Doc loan requires additional borrowings, the loan must be converted to a Full Doc loan with all standard supporting documents and credit assessment for a Full Doc loan to apply.

### 29.1 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.

## 30 Building insurance

A Certificate of Currency of Insurance for the security property issued by the Insurer, is required for each security property prior to settlement. In all cases, the first mortgagee's interest must be noted on the policy until the debt is repaid.

Improvements (the building) are to be insured against damage and destruction for not less than its full replacement value. If the property is in a bushfire or flood prone area, or is subject to a specific environmental or other risk, the insurance policy should cover such risks.

Cover notes or certificates issued by an insurance broker or body corporate are not accepted. It is the borrower's responsibility to ensure the building insurance for full replacement value remains current, with the first mortgagee's interest noted on the policy, until the debt is repaid.

## 31 Self Managed Super Funds (SMSF)

The legislative requirements applicable to loans to SMSFs includes a requirement that lenders have no right of recourse against the SMSF assets other than the security property, which also has to be held in a separate security custodian trust.

The legal title and legal ownership to the property must be held on trust by an independent trustee (the "security custodian trustee") and the SMSF must have the ability to acquire the legal interest in the property.

The SMSF must comply with all regulations applying to superannuation funds, Superannuation Industry (Supervision) Act 1993 (the "'SIS Act'') as amended.

The basic structure of for an SMSF loan is:

> **Trustee for Complying Self Managed Super Fund (SMSF)**
> The SMSF is the borrower and beneficial owner of property. The SMSF Trustee(s) can be individual trustees where all members of the SMSF must be trustees; or a corporate trustee where all members of the SMSF must be directors of the trustee company.
>
> **Security custodian trustee is the legal owner of property**
> The security custodian / trustee must be a company, but must be a different company to the SMSF company trustee (if applicable). It does not matter who the directors/shareholders of the security custodian trustee are – they can be anyone.

**Lender provides the loan**

Firstmac lends to the complying SMSF and has no recourse against the assets of the SMSF other than the security property.

## 31.1 Borrower (SMSF)

The 'Borrower' is the SMSF Trustee, which holds the beneficial interest in the security property.

The SMSF trustee must have the right to acquire the property from the Property Trustee, and must be permitted to borrow in accordance with the relevant legislative requirements (and any associated regulations).

Where the trustees of the SMSF are individuals, the loan will be made to the Trustees in their own right and as Trustee for the SMSF.

Trust deeds and documentation will be reviewed by Firstmac Legal Counsel, or nominated panel lawyers, to confirm satisfactory to Firstmac and need to include provision for:

- Borrowed funds being applied for the acquisition of the purchased property,
- Purchased property is being held on trust for the SMSF so the SMSF acquires a beneficial interest,
- When the mortgage is paid out in full, title to the property may be transferred to the SMSF or Security Custodian Trustee can continue as registered proprietor.
- Name, address and ACN (if a company) of SMSF Trustee.

## 31.2 Personal guarantee from Members (SMSF)

Personal guarantees from all adult beneficiaries (members) of the SMSF for the full loan amount are required.

Where the trustees of the SMSF are individuals, the trustee is a borrower in their own right & as trustee for the SMSF so additional personal guarantees from the trustees are not required. However, personal guarantees from all members that are not also trustees, are required.

## 31.3 Independent Legal Advice (SMSF)

SMSF borrowers and guarantors are to obtain independent legal advice. Evidence the advice has been obtained must be provided prior to settlement.

For refinances where the SMSF and guarantors can provide evidence that independent legal advice has been obtained previously for the loan being refinanced, the advice for the new refinance loan will be waived.

## 31.4 Credit Report & Credit History (SMSF)

A credit report through Equifax is required for each individual associated with the loan including guarantors and directors of any corporate trustee. Credit reports are to be completed and reviewed per section *Credit Reports*.

All parties associated with the SMSF loan must have clear credit, with no history of defaults, judgement or bankruptcy.

## 31.5 Loan purpose (SMSF)

- Purchase residential property for investment only. The loan purpose must not include any additional assets purchased at the time the property is purchased, such as furnishings or other items which are not fixtures; can include costs associated with the loan establishment.
- Refinance of existing SMSF loan (dollar for dollar refinance, and associated costs) where the original asset remains in place. Any surplus at settlement as a result of repayments being made on the loan being refinanced between application and settlement, are to be paid to the loan account at settlement to reduce the loan amount.
- Unacceptable purposes and transactions:
    - Vacant land, Construction or property development
    - Company Title ownership structures
    - Equity Release/Cash Out or Debt Consolidation
    - Purchase/Refinance of properties occupied by SMSF beneficiaries or related parties
    - Non Arm's length transactions
    - Purchases from related party of SMSF Trustees
    - Purchase or refinance owner occupied property
    - Home Improvements or renovation of security property
    - Bridging Finance
    - Additional advances / top ups
    - Substitution of security
    - Recouping equity expended
- Capitalisation or funding of interest not permitted (as per SIS Act). Loan funds must only be used for the purchase or refinance of a property and there can be no redraws, offset accounts or further advances.
- SMSF members or related persons are not permitted to occupy property.

## 31.6 Repayment type & Loan Term (SMSF)

Repayment type:

- Principal & interest repayments only.

Loan term:

- Up to 30 years available.

- Trust deeds will be reviewed by Firstmac Legal Counsel to ensure that the termination date of the trusts (if applicable) exceed the requested loan term. If required, Trust deeds will need to be amended to meet this requirement before settlement.

## 31.7 Interest rate options (SMSF)

Interest rate options available are:

- Variable
- Fixed for term of 5 years (or less if offered from time to time)
    - Break costs may apply where fixed rate term is broken and / or where additional repayments of more than $10,000 are made to the loan in a calendar year.
    - Fixed interest rates are set on the day of settlement of the loan. The interest rate for that particular day will be applied to the borrower's loan for the fixed term required.

## 31.8 Loan amount & LVR (SMSF)

A maximum loan amount applies on a 'per security' basis. Refer to *Postcode category* and Firstmac Acceptable Security Location guide for details of Category 1a, 1b, 2 and 3 postcodes.

| LVR | Category 1a | Category 1b | Category 2 | Category 3 |
|---|---|---|---|---|
| 70% – INV (P&I) | $2,000,000 | $1,400,000 | $950,000 | $700,000 |
| 80% – INV (P&I) | $1,500,000 | $1,400,000 | $950,000 | $700,000 |

Restrictions on loan amount, LVR, or both may apply to some postcodes – refer *Postcode sub-category*.

## 31.9 Minimum liquid asset position (SMSF)

The SMSF must have access to:

- Sufficient funds to complete the transaction at the time of application:
    - For a purchase, liquid assets available to the SMSF should include the required funds to complete the purchase transaction based on the approved LVR;
    - For a refinance, the minimum asset position required is sufficient equity in the property to complete the refinance based on the approved LVR.
- Minimum liquid assets (interest / dividend earning assets) equivalent to 5% of the total debts of the SMSF, including the new loan amount, after the loan transaction is complete.

Where the liquid assets are not already held by the SMSF (eg cash in cash management account; shares that can be liquidated), the funds need to be available in an existing industry or retail superannuation account that is in at least one of the SMSF members names.

## 31.10 Serviceability (SMSF)

Serviceability is to be calculated using the Firstmac SMSF Servicing Calculator with minimum NDI 1.00:1 required.

SMSFs must be able to service the loan from existing SMSF income and assets, proposed rental income and members' contributions.

The serviceability assessment will include a review of:

- The stability & history of super fund contributions & other fund income.
- The capacity to continue making the required superannuation fund contributions and consideration given to the timing of super fund contributions (which may be 'lumpy' or irregular).
- Where the member / contributor is self-employed, an appropriate assessment of the underlying trading business or other sources that will be relied upon to make ongoing contributions.

### 31.10.1Serviceability assessment rate (SMSF)

Firstmac's SMSF Serviceability Assessment Rate is used to calculate stressed repayments for new and ongoing mortgage loans.

- New lending:
  - Loans that have a variable interest rate, or a fixed rate term < 5 years – the higher of (1) the actual rate of the loan plus an assessment rate buffer of 2.00% pa; or (2) the assessment rate floor of 6.25% pa.
  - Loans that have a fixed rate term of 5 years – the actual rate is used as the assessment rate with no buffer or floor rate applied.
- Existing settled / ongoing investment loans:
  - Firstmac funded loans – the higher of (1) actual loan rate + buffer of 2.00% pa; or (2) the assessment rate floor of 6.25% pa.
  - Other financial institution (OFI) loans – assessment rate 9.25% pa.

### 31.10.2Acceptable income for serviceability (SMSF)

Acceptable sources of income to demonstrate serviceability by the SMSF:

- 100% of mandatory superannuation contributions (SGC as determined by ASIC).
- 100% of non-mandatory / voluntary contributions may be considered to support serviceability of the SMSF, provided the additional contributions are regular and evidenced.
  - Where not regular, or the amount of additional contributions needs to be increased for serviceability of the SMSF, each member of the SMSF must demonstrate their own ability to provide the required additional contributions – refer to *SMSF Members serviceability* section of this policy.

- Rental income – if multiple sources of evidence are provided, higher actual rent received may be used if the property is rented through a real estate agent with a copy of a current tenancy agreement or rental statements provided. Otherwise, the lowest rental amount should be used. Rental income relied on for serviceability as follows:
    - 80% of rental income from residential investment properties held by SMSF, including proposed rental income where the loan is for a purchase.
    - 70% of existing rental income from commercial investment properties held by the SMSF.
- Income from interest / dividend earnings in the SMSF based on a deemed return of return equal to the RBA cash rate. Where actual investment income is evidenced to be consistently higher in the last 2 years SMSF tax returns, up to 80% of the lower year may be relied on. Current evidence of the investments must be provided (eg super fund statements, current shareholding, term deposits etc).
- Negative gearing benefits can be included in calculations (auto calculated in the Firstmac SMSF Serviceability Calculator).
- Projected income from future investments, and income from non-SMSF assets is not permitted.

### 31.10.3Expenses (SMSF)

Ongoing expenses associated with running the SMSF are taken in to consideration by ensuring the *Minimum liquid asset position (SMSF)* is met.

### 31.10.4Member's serviceability assessment (SMSF)

Where there is a history of non-compulsory contributions that are sufficient to support the SMSF's serviceability assessment (if applicable), a serviceability assessment of the SMSF members as individuals is not required.

If, however, new or increased non-compulsory contributions to the SMSF are needed to support the SMSF's serviceability assessment, each individual SMSF member's financial position should be assessed.

Details of each Member's individual financial position should be collected, including living expenses, a full statement of assets & liabilities, and evidence of all personal income (refer *Acceptable income types*).

The serviceability assessment for the individual members is to determine they have sufficient surplus net disposable income after all personal expenses / commitments & liabilities, to make the additional contributions required for the SMSF to service the loan.

## 31.11 Security for SMSF loans

In addition to the requirements shown in *Security* section, SMSF loans must only be secured by a "single asset" comprising a security single dwelling property on a single title (not two or more separate titles).

In cases, where the property is split into 2 titles (eg unit and car space, or single dwelling with 2 separate titles, that cannot be sold individually), Firstmac may consider as "one asset'' and may lend under one loan using one security custodian trust, subject to:

- The borrower has obtained their own legal advice that the property is "one asset" and separate titles cannot be sold individually (Firstmac requires a statutory declaration to that effect);
- The property must be valued as "one asset" in the valuation report arranged by Firstmac.

Adequate insurance is required for each security property, refer *Building insurance* section for more details.

#### 31.11.1Unacceptable security types for SMSF loans

The following security types are NOT permitted for SMSF loans:

- Security types listed in *Unacceptable securities*
- Any asset not acquired with the loan proceeds
- Property with more than one property or dwelling / occupancy on a single title
- Specialised security eg Retirement Village units or holdings
- Property development
- Properties on land exceeding 2.5 hectares
- Cash Deposits

### 31.12 Security Valuations for SMSF loans

An acceptable valuation is required for all security properties:

- AVM is not available for SMSF loans
- Desktop valuations are available for SMSF loans with residential security to maximum LVR 70%; additional criteria applies as per *EVR / Desktop Eligibility & Acceptability criteria*.
- Full valuation required if all *EVR / Desktop Eligibility & Acceptability criteria* is not met

Refer to *Security Valuations* for full details.

### 31.13 Documentation required with application (SMSF)

#### 31.13.1SMSF & Security Custodian Trust

- Certified copy of the original Trust deed establishing the SMSF and certified copy of all variation deeds since SMSF established (if applicable).
- Certified copy of the Security Custodian Trust deed, and certified copy of all variation deeds since established (if applicable).

- Statutory declaration from all SMSF beneficiaries that the SMSF is a compliant SMSF under the SIS Act requirements, prior to loan settlement.

### 31.13.2 Evidence of income for SMSF & Members

Income available for SMSF serviceability to be evidenced as follows:

- SMSF:
    - Established SMSF – recent SMSF bank statements evidencing regular member contributions
    - New / recently established SMSF – most recent superannuation statements for all the SMSF beneficiaries from their current industry / retail fund
    - Statements provided will also verify liquid asset position of the SMSF
- PAYG members (including *Self-employed individuals paying self PAYG*):
    - 2 most recent payslips showing super contributions
- Self-employed members:
    - Last two years SMSF bank account statements, or current industry or retail fund statements to be rolled over, evidencing member contributions and cash / investments
- Rental income – evidence of all rental income relied on for serviceability
    - Existing rent received by SMSF – latest rental statements or current lease agreement;
    - New rent for property being purchased by SMSF – rental appraisal from local agent or rental value shown on valuation report (full valuation reports only)
- Other income – recent super fund statements showing investment earnings & current investment holding

### 31.13.3 Evidence to support loan purpose

Purchase:

- Property purchase contract (Security Custodian must be noted as Purchaser)
- Funds to complete purchase:
    - Funds already held by SMSF – evidence sufficient funds held by SMSF to complete the purchase (can be same statements obtained to evidence member contributions); or
    - Funds to be paid to SMSF – evidence from beneficiaries that the deposit moneys to be paid to SMSF are allowable contributions to the SMSF (eg rollover from another industry / retail superannuation fund)

Refinance:

- Recent bank statements for the SMSF showing repayments made to the loan (can be same statements obtained to evidence member contributions)

### 31.13.4 SMSF compliance status via Super Fund Lookup

Verification that an established SMSF is a registered and complying fund as determined by the ATO, is to be provided via Super Fund Lookup (www.superfundlookup.gov.au). This lookup will also provide confirmation that an ABN has been registered for the SMSF.

The status of the SMSF in Super Fund Lookup must be shown as 'Complying' prior to settlement.

Recently registered SMSFs with a status of 'Registered' may be considered for approval however, the status must be 'Complying' prior to settlement.

A complying SMSF:

- is regulated by the ATO; and
- has been issued with a Notice of Compliance

Complying funds that meet the Superannuation Industry (Supervision) Act 1993 standards qualify for concessional tax rate. Employer contributions made to complying funds can qualify as Superannuation Guarantee (SG) payments.

Applications from an SMSF with a status of 'Non-complying', 'Regulation details withheld' or 'Regulation details removed' will not be considered.

Refer to www.superfundlookup.gov.au for more details on the status types.

## 31.14 SMSF loan and security documentation

Preparation of the Firstmac loan and security documentation will be by a Firstmac Panel Lawyer as determined by Firstmac, and will include:

- Credit Contract between Firstmac and the SMSF including charge over beneficial interest in the security property (limited recourse).
- Mortgage over legal interest in the security property by Security Custodian Trustee (limited recourse).
- Mortgage side deed between Firstmac, the Security Custodian Trustee and the SMSF Trustee(s) (limited recourse to the property being purchased).
- A guarantee from Security Custodian Trustee (the right of indemnity from SMSF will be limited to the property being purchased).
- Statutory Declaration from a director of the SMSF Trustee regarding compliance by the SMSF with the SIS Act. This will be transaction specific.
- Personal guarantees from all adult members of the SMSF.

Notes

Firstmac's recourse against the SMSF Trustee and the SMSF for default in respect of payment are limited to the security property.

No collateral may be taken from the SMSF. The right of indemnity from the SMSF must be limited to the security property.

### 31.15 Loan Variations, Redraw or Offset

Post settlement loan variations such partial discharge or substitution of security are not permitted.

Further principal sums cannot be advanced and redraw of additional payments made to the loan are not permitted.

Separate Offset sub-accounts are not available.

## 32 Bridging loans

Bridging loans provide a finance option for borrowers requiring a short term increased level of debt to assist with the purchase of a new property before completing the sale of an existing property.

Once the existing property is sold, total debt may be repaid in full (e.g. downsizing), or reduced with sale proceeds leaving an 'end debt' that is repaid over the remaining term of the loan.

Definitions:

*Initial amount financed* – the total funding required to complete the new purchase, refinance any existing debt on the existing property being sold, any fees associated with the purchase (e.g. stamp duty), and any fees associated with the establishment of the bridging loan fee that are capitalised to the loan.

*Peak debt* – the initial amount financed (including the upfront bridging loan fee) and interest charges capitalised during the bridge period.

*End debt* – the residual loan amount required after the existing property has sold.

*Bridge period or term* – the period from the initial settlement until the sale of the existing property settles and the debt is paid out in full, or reduced to the end debt amount.

### 32.1 Bridging loan criteria

Summary of the parameters that apply during the bridge period:

- Minimum Equifax CCR score 700 for the Primary Borrower (ie borrower with highest income)
- New property being purchased must be owner occupied; existing property being sold can be owner occupied or investment
- Maximum LVR 80% based on the peak debt

- Maximum LVR 80% based on end debt, assuming 20% haircut on original property to be sold
- Maximum bridging loan peak debt $3.0M, reducing to standard limits post sale of the existing property, refer *Loan Amount*
- Category 1a and 1b postcodes only – refer *Postcode Category*
- Existing property must be listed for sale prior to settlement of the new purchase
- All other applicable credit criteria applies

## 32.2 Bridging loan structure

At the commencement of the loan, a mortgage is taken over the new property being purchased, and the existing property that is to be sold.

Where there is an existing debt on the property to be sold, that debt needs to be refinanced to Firstmac and must settle simultaneously with the new purchase settlement.

When the sale of the existing property settles, the bridge period ends. The loan will either be repaid in full (i.e. no end debt), or where an end debt applies, the loan reverts to a standard home loan for the remainder of the total loan term selected.

### 32.2.1 Loan term – bridge period & end debt

The bridge period / term must be selected at the commencement of the bridging loan.

Where an end debt will apply, the overall loan term can be up to 30 years (subject to *Age of borrower / guarantor* requirements) however the bridge period selected must be either 6 or 12 months. Where no end debt will apply, the loan term matches the bridge period selected ie 6 or 12 months.

### 32.2.2 Interest rate type during bridge period

The interest rate applied during the bridge period is fixed. After the bridge period, the interest rate reverts to a standard loan product with a variable interest rate.

### 32.2.3 Interest charges & repayments during bridge period

The initial 3 months of the bridge period are interest free with an upfront fee payable that is capitalised to the loan. If the bridge period ends within the initial 3 months, the upfront fee is not refundable.

After the initial 3 months, interest is calculated on daily balances and charged to the loan monthly on the anniversary of the settlement date. The interest charged to the loan for months 4 – 6 inclusive is capitalised to the loan, resulting in the peak debt at the end of the 6$^{th}$ month.

As the upfront fee and interest charged during month 4 – 6 inclusive is capitalised, monthly repayments are not required to be made during the initial 6 months of the bridge period.

For loans with a 12 month bridge period, interest is calculated on the peak debt from month 7 – 12 inclusive, with monthly interest only repayments required during that period.

## 32.3 Serviceability – bridging loans

Serviceability for the bridge period is assessed up front on the calculated peak debt (refer *Serviceability during the bridge period*), and on the end debt i.e. the loan amount after existing property is sold. The Firstmac Bridging Loan serviceability calculator must be used for bridging loans.

The serviceability test for bridging loans can include all standard *Acceptable income types*, and must take into consideration the borrower's living expenses and ongoing commitments as per *Loan serviceability calculation*.

### 32.3.1 Serviceability during the bridge period

For loans with a bridge period of 6 months, there is no bridge period serviceability assessment required as any interest charged during the bridge period is capitalised to the loan.

Loans with a bridge period of 12 months however will require a serviceability assessment to ensure sufficient net disposable income to cover the interest only repayments on the peak debt for month 7 – 12 inclusive.

Due to the nature of bridging loans, the interest only repayments for this serviceability assessment are calculated using the peak debt amount at the bridging loan interest rate (fixed for bridge period); the residual PI loan term is not used for the calculation of the bridging loan repayment.

### 32.3.2 Serviceability of the end debt

Where there will be an end debt after the existing property is sold, the standard serviceability assessment (refer *Loan serviceability calculation*) is required using the residual PI loan term e.g. loan written over 30 years including 12 month bridge term – serviceability of the end debt will be assessed over 29 years.

## 32.4 Valuations for bridging loans

Standard valuation policy applies to bridging loans – refer *Security Valuations*.

A valuation is to be completed on both properties taken as security at the time of origination, at which time the LVR is assessed for both the peak debt, and the end debt (using the security to be retained only). No further valuation of the property being retained as security for the end debt is required at the end of the bridge period to facilitate the discharge of the property that has been sold.

## 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 a property valuation report has been completed for the above address by an independent certified valuer.

The valuation report is for mortgage purposes only and takes into account a range of risks, including recent market movements and environmental factors. The report includes an estimated amount for which the property would be expected to exchange between a buyer and a seller.

This notice is issued for the purposes of informing you that the property valuation report indicates the purchase price is <<insert % variance>> above the current market value assessed by the valuer.

You cannot rely on a lender's valuation report for your own purposes and it is recommended you make your own enquiries as to the value of the property.

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

If you want to proceed with your loan application, please confirm and acknowledge this valuation variation advice by signing below.

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 Practicing 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 s Certified Practicing 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 Practicing Valuer status are only acceptable when co-signed by a supervising member who is a Certified Practicing

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.
2. The amount of required PI cover (as above) may be higher as advised by Firstmac. 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.