



IBAL Residential Mortgage Underwriting Guidelines (Broker Version)

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Contents

1. Introduction	5
1.1 Background & Overview	5
2. Approval Process	5
3. Eligible borrowers	5
3.1 Specific Risk for Other Borrowers	6
3.1.1 Mixed parties	6
3.1.2 Borrowers of convenience	6
3.1.3 "Straight" third-party security	7
3.1.4 Sophisticated Investors	8
3.1.5 Family Support	8
3.1.6 Non English Speaking Borrowers	11
3.1.7 Retirees / Mature Aged Applicants	11
3.1.8 Power of Attorney	12
3.1.9 Diplomats	13
3.1.10 High Risk Industries	13
4. PURPOSE	14
4.1 Acceptable Purpose	14
4.1.1 Refinance	15
4.1.2 Bridging Finance	16
4.2 Unacceptable Purpose	17
5. MAXIMUM LOAN TERMS AND AMOUNT	17
5.1 Maximum total exposures	17
5.2 Maximum Terms and Repayment Arrangements	17
6. LENDERS MORTGAGE INSURANCE (LMI)	18
7. FUNDS TO COMPLETE, GENUINE SAVINGS AND GIFTS	18
7.1 Funds to Complete	18
7.2 Genuine Savings	18
7.3 Gifts	19
8. INCOME TYPES	20
8.1 PAYG Income Earners-Minimum Employment Requirement	20
8.2 Small Business/Company (Self-employed) Incomes	21
8.3 Other Incomes	21
8.4 Unacceptable Income Types	22
9. INCOME VERIFICATION	22



10. COMMITMENTS AND LIVING EXPENSES.....	29
10.1 Mortgage Loans	29
10.1.1 Home Loan Customers with Commercial Facilities	30
10.1.2 Personal Loans and other Loans.....	30
10.1.3 Credit Card Repayment.....	31
10.1.4 Overdraft and other Unsecured Line of Credits.....	31
10.1.5 Buy Now Pay Later (BNPL).....	31
10.1.6 HECS HELP Debts.....	31
10.1.7 Consideration of Negative Gearing on Tax	31
10.1.8 Margin Loans	31
10.1.9 Vendor Finance	32
10.2 Expenses	32
10.2.1 Living Expenses	32
10.2.2 Living Rent Free.....	33
10.2.3 Investment Property Costs.....	33
11. SERVICEABILITY.....	34
11.1 Debt to Income (DTI)	34
12. CREDIT CHECK REPORTS.....	35
13. SECURITY.....	37
13.1 Acceptable Security.....	37
13.1.1 First Mortgages.....	37
13.1.2 Normal Residential Dwelling	37
13.1.3 Residential Acreage or Rural Residential Zoning (includes hobby farms)	38
13.1.4 Smaller and Inner City Apartments.....	38
13.1.5 Off-the-Plan Purchase	38
13.1.6 Favourable Purchases.....	39
13.1.7 Leasehold Property (Crown Lease).....	40
13.1.8 Residential Vacant Land Security	40
13.1.9 Stratum Title	41
13.1.10 Deed of Charge	41
13.1.11 Second Mortgages.....	41
13.1.12 Queensland Securities.....	42
13.1.13 Guarantees	43
13.1.14 Information about obtaining independent legal and financial advice	48
13.2 Unacceptable Security.....	50
13.3 Concentration Limit.....	52
	3



14. POSTCODE CATEGORIES.....	52
15. MAXIMUM LVR BY SECURITY.....	53
16. VALUATIONS.....	55
16.1 Overview	55
16.2 Valuations for New Securities	56
16.2.1 Contract of Sale.....	56
16.2.2 AVM.....	57
16.2.3 EVR.....	57
16.2.4 Short Form and Full Valuations	57
16.3 Valuations for Existing Business.....	58
16.4 Valuers' Standing Instructions	58
16.5 Valuers.....	59
16.5.1 Valuation Appeals-Short Form / Full Valuations (Managed by Operations)	60
16.6 General Insurance.....	61
16.7 Variations between Purchase Price and Valuation	61
16.8 Second Opinion Valuation.....	62
17. VARIATIONS	62
17.1 Partial Release	62
17.2 Switches.....	63
17.3 Reduced Equity Product (REP) Loans.....	64
17.4 Substitution of Security	65
17.5 Consents	65
17.5.1 Consent to a Second Mortgage.....	65
17.5.2 Other Consents	66
17.6 Increases.....	66
17.6.1 Non Structural Improvements.....	67
17.7 Increase in Conjunction with Other Variations	68



1. Introduction

1.1 Background & Overview

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The following general guidelines define what an acceptable exposure is for IBAL:

- All loan applications must comply with these underwriting guidelines.
- Each loan application must have a legitimate legal purpose, both within the word and the spirit of the law.
- All loan applications must be completed on an “arms-length” basis.

2. Approval Process

In line with ING Global Policy a formal approval is valid for up to 3 months. After this period, a new assessment is required.

3. Eligible borrowers

Only natural persons are eligible borrowers. Loans to non-individuals including companies, businesses and trusts (company or individual as trustee) are not acceptable however, they can be considered as a guarantor or mortgagor (refer to clause 13.1.13 in relation to IBAL’s obligations when taking a guarantee).

An eligible borrower must be an individual of at least 18 years of age (a minor is not permitted to be a borrower, guarantor or mortgagor), reside in Australia and be either an Australian citizen or permanent resident.

Note

- For joint applications, it is acceptable if only one applicant is a permanent resident when both the applicants reside in Australia and are married or in a de-facto relationship.
- New Zealand citizens who work and reside in Australia are eligible borrowers
- Increases and variations to existing mortgage loan accounts in the name of a trust or a company can be considered under these guidelines



3.1 Specific Risk for Other Borrowers

3.1.1 Mixed parties

Mixed parties arise where the borrowers have an interest in the security properties being offered, but not all parties have an interest in all properties used as security for a loan.

For example, A, B and C are borrowers. A, B and C are mortgagors on Property 1. Only A and B are mortgagors on Property 2.

In this case, there is no third party as all borrowers are mortgagors. The incomes of A, B and C are all taken into account for servicing purposes.

There is no need for legal or financial advice for any party because there is no element of guarantee; however, consider the circumstances surrounding the transaction when making a judgement as to the need for the applicants to seek independent legal and/or financial advice.

Ensure that mixed party loans are not artificial arrangements to avoid the prohibition on borrowers of convenience.

3.1.2 Borrowers of convenience

Borrowers of convenience arise where borrowers wish to buy real estate, but their income is insufficient to satisfy servicing, so an additional borrower is introduced. The party is considered a borrower of convenience because he/she derives little/no benefit from the transaction however may be represented on title (i.e. usually the transactions makes little sense and ownership may be less than 20%).

These transactions may not be able to be approved given the provisions of the 2019 Banking Code.

The 2019 Banking Code relevantly provides as follows:

Section 54 “If, on the information that you have provided to us in the course of applying for this loan, you will not receive a substantial benefit from the loan, we will not approve you as a co-borrower unless we:

a) have taken reasonable steps to ensure that you understand the risks associated with entering into the loan, and understand the difference between being a co-borrower and a guarantor;

b) have taken into account the reasons why you want to be a co-borrower; and

c) are satisfied that you are not experiencing financial abuse.

Section 55 “A substantial benefit includes where:



- a) you acquire a reasonably proportionate legal or equitable interest in assets purchased with the loan funds; or
- b) a reasonable portion of the loans funds are used to repay your debts, or other obligations owed by you”

Note: Where borrowers are married or in a de-facto relationship and apply for a loan to buy a property with an ownership split of less than 20% (e.g. 99 to 1), this may be considered acceptable where the transaction makes sense. Refer to Sophisticated Investors (Section 3.1.4) if party A or B is to have no ownership of the property.

Example: Borrowers A, B, and C apply for a loan for A and B to buy a property. C is clearly a borrower of convenience and the loan cannot be approved.

A transaction can only be considered where C is deriving a **benefit**.

The benefit can only be established if:

- The purpose of the transaction is for owner occupation, full or part-time; or
- The purpose of the transaction is for an investment property to be purchased in all names (subject to a maximum of 5 parties).

Where the ownership is not equal, each shareholding should be a minimum of 20% to satisfy a reasonable benefit from the transaction.

Also, refer to **Section 13.1.14** Information about obtaining independent legal and financial advice.

3.1.3 "Straight" third-party security

When borrowers apply for a loan on the basis of security provided by:

- the borrowers and a third-party; or
- A third-party only,

the borrowers must be able to satisfy IBAL servicing requirements (i.e. there is no reliance on the third-party's income to satisfy IBAL servicing criteria).

In this case, the third-party must be a guarantor and a recommendation must be made that the proposed guarantor to obtain independent legal advice and if required, financial advice. (Refer to Section 13.1.14 for Information about obtaining independent legal and financial advice. Refer to **Section 13.1.13** about IBAL's requirements when taking a guarantee)

The guarantor must be a parent, child, de facto/spouse, company, Aunt or Uncle, or Parent-in-law of the borrower. (An assessment of the financial strength and assets & liabilities of the third party mortgagor must evidence that the mortgagor/guarantor will not suffer substantial hardship if the security is called upon. The preferred security should not be an owner- occupier home.)



Example: Mr Jones is borrower. The security is a mortgage over the investment property being purchased by Mr Jones, and also the owner occupied home owned by Mr & Mrs Jones/Mrs Jones solely.

This section is not to be confused with **Section 3.1.5** Family Support.

3.1.4 Sophisticated Investors

Sometimes for asset protection and/or taxation planning the ownership of real estate is vested in one party solely or one party has less than equal share in the ownership.

Example: A and B are married. The loan is in joint names and is to enable A to purchase a property (in A's name only). B is a "professional" and B's income as co borrower will be taken into account to satisfy servicing.

To consider an application structured this way:

- All parties must be related by marriage or de-facto relationship. Relationship of parent/child is not acceptable.
- At least one of the parties must be
 - a "professional" (i.e. involved in business or commerce requiring a degree of commercial sophistication) or
 - considered by IBAL as a "sophisticated" investor, and as a result the ownership has been structured in line with financial, estate or family planning (structure make sense and not just to fit within these underwriting guidelines).

3.1.5 Family Support

The Family Support Section allows suitable borrowers with a nominal shortfall in savings, the ability to purchase property or refinance associated loans with the assistance of immediate family members.

Loans to a maximum of 100% of the purchase price may be considered, however evidence of genuine savings is preferred as this supports the ability to meet commitments.

While the target market for this guideline is the first home buyer (whether owner occupied or investment), consideration will be given when upgrading the property, however additional care needs to be exercised to ensure this does not adversely affect the guarantor's financial position. The intent of this underwriting guideline is not to leverage third party securities to build property portfolios.

In terms of this section, immediate family members can be described as:-

- An adult child (including an adopted child, step child etc.)
- A parent or grandparent
- A sibling

Under this section support can be achieved three ways:-



1. Guarantee and mortgage for security support only. Refer to **Section 13.1.13** for IBAL's requirements when taking a guarantee;
2. Eligible Family Member as co-borrower/mortgagor; or
3. Sole borrower – relative borrows in own name using own security and on-lends to the family member.

3.1.5.1 Features & Benefits:

- Borrowers who would normally be excluded from the property market can borrow sufficient funds with the assistance of family members
- In the case of security support the family member can assist without having to take on an extra regular financial commitment

3.1.5.2 Product Availability:

This section is available on a P & I basis for all IBAL products.

3.1.5.3 Restrictions:

- Funding to a maximum of 100% of purchase price
- No LMI
- No cash out or refinancing of other debts
- No interest only or equity type facilities
- Unsupported guarantees for servicing support only are not allowed
- Guarantor's security is to be acceptable to IBAL
- Our overarching position is that any guarantor should not be placed in a position of hardship in guaranteeing or supporting a loan approved under this section
- As a minimum, financial assessment is to be made of the guarantor's financial position both now and what could be reasonably expected in the future if the primary borrower were to default on the loan (This could take into account such issues as age, asset position and a "fall back" position for the guarantor should a default occur)

This section is not to be confused with **Section 3.1.3**.

3.1.5.4 Refinance under Family Support:

In addition to the requirements contained above for borrowers requiring family support, a refinance under one of the three options can be considered for approval when the following conditions are met:



- The existing loan structure with the current lender was provided under similar parameters (i.e. same borrowers, security and guarantors, if any). A copy of the Letter of Offer or Contract for their current facility should be provided for confirmation;
- Refinance of existing home loan only, with maximum cash out of \$5,000 to apply (subject to maximum LVR restrictions);
- The consolidation of credit cards/ other debts, or refinance of a partially constructed property is not allowed; and
- All guarantors must obtain new independent legal advice and if required, financial advice.

3.1.5.5 Guarantee and Mortgage for Security Support Only:

- Guarantee provided by an eligible family member to be supported by a registered first mortgage over the guarantor's security property. (The preference is for investment property but owner occupied property is acceptable.) A registered second mortgage is also acceptable but only where IBAL holds the first mortgage
- IBAL's preferred position is for the guarantee to equal all amounts owing under the loan plus other categories of liabilities such as interest and costs
- Limited guarantees can be considered only where requested by customer/broker, provided the amount is sufficient for security support. Minimum amount of guarantee would be total loan amount less maximum security support (LVR) of primary security amount. Example: A Loan amount of \$450,000, less \$400,000 (80% of Property Value \$500,000) equals \$50,000 (Required amount of guarantee)
- Normal maximum security LVR's (without LMI) are applicable. The preferred maximum LVR allocated to the support security is to be capped at 33% of its value plus any other IBAL borrowings. (i.e. Maximum loan amount is primary security @ 80% LVR plus support security @ 33% LVR. Loan amount must not exceed 100% of purchase price)
- Guarantees are provided for the life of the loan. A later request to release the guarantee and supporting security could be made when the primary security is within normal LVR requirements and subject to a normal servicing assessment based on current criteria
- Guarantor(s) must seek independent legal advice and if required, financial advice prior to entering into the transaction
- Borrowers must be able to service the loan in their own right
- Asset position of guarantors to be such that they will not suffer undue hardship should the guarantee be called upon



3.1.5.6 Eligible Family Member as Co-Borrower/Mortgagor

- An eligible family member can support servicing of an owner occupied housing loan as a co-borrower/mortgagee
- Family member(s) to be on title with a minimum of 20% share of the security property. Servicing assessment to be completed using incomes and existing commitments of all borrowers
- Ownership should realistically reflect the servicing support offered by family member (i.e. Greater support greater ownership)
- Maximum LVR of 80% - LMI not available

3.1.5.7 Eligible Family Member as Sole borrower

(Relative borrows in own name using own security and on-lends or gifts to the family member)

- Subject to standard IBAL assessment guidelines for the borrower on a standalone basis.

It is preferable to assess application in tandem with the family member's application so that a complete picture of the transaction is gained by the credit assessor.

Note: IBAL Gift Underwriting Guidelines will apply to the family member's loan application

3.1.6 Non English Speaking Borrowers

IBAL must exercise extra care as we need to ensure the borrower understands what they are doing. The following conditions must be met:

- A qualified professional translation service is required to be used to interpret the documentation and an appropriate certificate provided
- The translator must be independent of the borrower

In addition, the borrower must be asked whether there are any additional matters or steps that IBAL could take to assist the borrower undertake their banking. To the extent that any additional matters or steps are identified, IBAL should take all reasonable steps to provide that assistance.

3.1.7 Retirees / Mature Aged Applicants

The following conditions must be met:

- Pass normal servicing criteria
- Repayment capability is demonstrated over the term of the loan at approval; and



- An acceptable exit strategy is advised and evident at the time of approval.

For mature age applicants who will rely on income to repay the loan once they retire, their asset and liability position should also be carefully assessed to determine sustainability of income or how the debt will be paid in the future – i.e. can the debt be cleared by the following which must be evidenced:

- Normal income cash flows, or
- By sale of investment assets (e.g. shares/bonds/managed funds), or
- By payout from part of their superannuation, or
- Realisation of equity in other real estate investment.

In addition, the following documentary evidence may be required to support an exit strategy:

- Superannuation/Annuities statements;
- Savings history; and
- Proof of asset and investment ownership (e.g. property, shares, managed fund investments etc.)

Income derived from a superannuation annuity may be assessed at 80% for the purpose of determining the loan serviceability.

3.1.8 Power of Attorney

This section applies to:-

- New borrowers.
- Existing borrowers where the original borrowing was approved on a first party basis but we are asked to approve further borrowings under a POA executed by the borrower at a later date.
- Guarantors.
- Third party security providers.

Security documents can only be executed under a Power of Attorney (POA) where it can be confirmed that borrowers/guarantors/third party security providers are overseas at the time of requiring security documentation executed. This is subject to:

- Borrower/guarantor/third party security provider to confirm by email/ facsimile the execution of the documents by POA
- IBAL Solicitor to ensure the POA is registered. (N.B. In limited cases registration is not mandatory in Victoria)
- POA to specifically allow for execution of mortgages.
- The identification of attorney through the normal process.



It is not IBAL policy to approve borrowings where the request for borrowing and the execution of all relevant security documents comes from an attorney acting under a POA.

Also, whilst an attorney can legally apply for finance on behalf of a Donor, IBAL does not wish to expose itself to any reputational risk in the event that the attorney is not acting in the best interests of the Donor.

3.1.8.1 Definition

A Power of Attorney (POA) is a document that appoints one person (the attorney) to act on behalf of another person (Donor).

Any lawful action taken by the attorney under the POA is binding on the Donor.

There are currently two types of POA in Australia:-

- A standard POA which can be used to cover a variety of transactions, including dealing in property and loan applications. This can be revoked at any time and also ceases when the Donor loses his or her faculties.
- An enduring POA which continues even after the Donor loses his or her faculties.

POA's need to be registered in accordance with the laws of the state of residence of the person giving the POA.

3.1.8.2 Existing Borrowers - Loan Account Transactions

Where IBAL is asked to carry out normal administration tasks (e.g. account balances, rollover of fixed rate loans, release of security etc.) for a borrower under a POA given by the borrower to a third party, IBAL must sight the original of the POA and verify that it is registered as required under the various state laws.

The POA must be produced on each occasion a request is made to deal with a borrower's account together with a Statutory Declaration from the attorney stating that the POA has not been revoked. (Withdrawn/cancelled/expired)

3.1.9 Diplomats

IBAL does not lend to foreign diplomats.

3.1.10 High Risk Industries

Some industries are considered higher risk than others. As a result, additional verification and restrictions are placed on acceptance of income from employment in the following high risk industries and sub categories:

Accommodation- Hotels and similar accommodation, Holiday and other short-stay accommodation, Camping grounds, Recreational vehicle parks and trailer parks, Other accommodation.



Air transport- Passenger air transport, Freight air transport and space transport, Airport operations and other air transport support services

Food and beverage service activities- Restaurants and mobile food service activities, Event catering activities, Other food service activities, Beverage serving activities

Gambling and betting activities; and

Travel agency, tour operator and other reservation service and related activities

The additional requirements are listed below for high risk affected industries.

- Cash out is not available where all applicants are self-employed in high risk industries. Cash out is acceptable where there is a second PAYG income and evidence is obtained of the purpose of the funds.
- Self-Employed applicants' Business Activity Statements must be provided, when the business or company turnover is \$75,000 or more, covering all that are due for the current financial year up to the time of application.

4. PURPOSE

4.1 Acceptable Purpose

IBAL will consider loans for any worthwhile purpose including: -

- Purchase or refinance of:
 - Residential owner occupied property;
 - Residential investment property.
- Non-structural home renovations.
- Consolidation of other personal debts (including leases/ hire purchase) .
- Purchase of investments.
- Repayment of gifts (Where a loan purpose is to repay a gift the application is to be considered as an Equity release (i.e. cash out) and assessed under those guidelines).

If credit is approved and it is regulated by the (NCC), a borrower and any proposed guarantor must be informed that they can obtain IBAL's suitability assessment in relation to the provision of credit to them.

Note

The front and special conditions pages (at the minimum) of the Contract of Sale are to be perused by the approving officer to ensure there are no rebates/incentives involved when a loan involves the purchase of:

- Land; or
- A house and land package; or



- An “off the plan” unit (see **Section 13.1.5** for definition).

If there are, then the valuer will need to be advised accordingly, and adjustments may need to be made to the security value.

4.1.1 Refinance

An existing residentially secured loan can be refinanced up to 80% LVR. This can include equity release, cash out or debt consolidation (e.g. personal loans, credit cards, etc.).

Any debt consolidation should be thoroughly assessed to ensure that the borrower(s) are not consolidating their debts in order to provide a short-term remedy to their financial difficulties.

All costs and expenses (e.g. legal costs, professional charges, fees and charges imposed by outgoing lender, legal costs, professional fees, etc.) should be considered when calculating the requested loan amount.

Care should be taken where credit card balances are hardcore and/or where multiple unsecured facilities are to be consolidated especially when equity position is minimal or repayments are interest only.

Any redraw included in the borrower's available limit with the existing lender, can be included in the refinance and is not classified as cash out.

When held Rates, Valuer General's and Department of Natural Resources (Qld only) Notices should be perused for arrears. (Refer [Section 12 Credit Check Reports](#))

- Evidence of good repayment history with no indication of hardship. CCR reporting can be utilised to determine acceptable conduct on all other bank facilities. When CCR reporting is not available bank statements covering at least 6 months transactions, (no more than 1 month old at the date of submission) must be reviewed. Only the latest monthly statement is required when consolidating credit cards.
- Confirmation of account name(s), BSB, account number, approved limit and current loan account balance. This could require an interim loan statement or account balance print-out. ATM receipts are not acceptable for this purpose
 - Identify and highlight if the applicant has changed financiers on more than one occasion in the last 2 years;
 - No concurrent request for a 2nd mortgage will be allowed.
 - Specific attention must be paid where more than 6 separate credit enquiries are listed within the last 12 months. The credit assessor is to review the Credit Check Report, and satisfy themselves that the customer is a suitable risk and these activities do not adversely affect the applicant(s) creditworthiness, if necessary by seeking additional information/explanation.



4.1.1.1 Private Mortgages

Private Mortgages are those mortgages not provided by Banks, Credit Unions, Building Societies (that would appear on APRA's list of Authorised Deposit-taking Institutions) & Mortgage Managers. Private mortgagees do not generally provide loan statements. For those refinances where we are taking over a private mortgage, a letter from the mortgagee, plus the latest Council rates notice for the subject property are required.

Additional care must be taken when refinancing a private mortgage to ensure the conduct of the loan to be refinanced is acceptable to IBAL. This may be evidenced by such items as a loan statement, a signed letter from the mortgagee if no statements are issued, or a statement of the account from where the payments have been paid, clearly identifying the destination of the payment.

4.1.2 Bridging Finance

Bridging finance is acceptable on a short term basis to assist customers meet the challenges of buying and selling where settlements are not simultaneous. Therefore a borrower may require an increased level of debt during this period until the sale of their existing security has taken place and the level of debt can reduce to a more sustainable level

Eligibility:

- Existing Home Loan Customer
- Proposed Loan is Owner Occupied
- Existing Loan conducted within arrangements

Requirements:

- Maximum bridging period is 3 months
- Maximum LVR is 80% during the bridging period
- Maximum LVR Post Bridging period is 80%
- Contract of Sale on existing security must have exchanged and be unconditional/enforceable (cooling off period expired)
- Rental income or negative gearing benefits cannot be used for either existing or proposed securities
- Residual loan amount to be confirmed using sale price less minimum selling costs of 10%
- Borrowers must be able to demonstrate they can meet repayments on new and existing facilities.
- DTI requirements apply to residual loan amount (Refer Section 11.1)

Servicing:

- Where borrower satisfies normal servicing requirements based on existing and proposed debt, it can be approved .
- Where:



- borrowers do not meet normal servicing requirements based on existing and proposed debt but can demonstrate serviceability on the residual loan amount;
- borrowers can demonstrate the ability to make interest only repayments on the proposed bridging loan during the short term bridging period,

Bridging finance can be approved .

- Where a servicing shortfall still exists but borrowers have sufficient cash reserves to supplement expenses during the bridging period.
- In each of the above servicing scenarios, approval must contain a condition which includes “Sale proceeds of *(existing property being sold)* to reduce total debt to a maximum of \$xxx,xxx (*residual loan amount*) and sales proceeds placed in permanent reduction”.

4.2 Unacceptable Purpose

Unacceptable Purposes:

- Refinance of loans where there is evidence of arrears/overdue payments/direct debit: cheque returns.
- Any business purpose including refinance of business loans, equipment purchase, purchase of business, and working capital.
- Property development of a commercial nature.
- “Takeout” of property development finance where servicing is reliant solely on the sale of assets.
- Providing Bank Guarantees.
- Pay taxation liabilities. (In general borrowing for taxation expenses is unsatisfactory however where we can satisfactorily determine the reason for the liability and it would appear to be a one off expense, tax liabilities can be considered on a case by case basis using an appropriate repayment term aligned with the general reason for the expense)

5. MAXIMUM LOAN TERMS AND AMOUNT

5.1 Maximum total exposures

The preferred maximum exposure is \$3.0m with a minimum of \$20,000.

5.2 Maximum Terms and Repayment Arrangements

Loans approved under these guidelines have a maximum loan term of 30 years.



Repayment arrangements can include principal and interest, interest only.

The maximum interest only period for owner occupied loans is 5 years and 10 years for investment loans. (Refer to **Section 17.3**).

In line with our responsible lending requirements, the overarching purpose of owner occupied loans is for the borrower to eventually own the property outright. Therefore, requests for interest only repayments on those loans should be supported with an acceptable explanation for why interest only repayments are requested.

Maximum LVR including any capitalised LMI premium:

- 95% for owner occupied properties with principal and interest repayments
- 90% for investment properties with principal and interest repayments or interest only repayments
- 80% for owner occupied properties with interest only repayments
(Further details on security types contained in Section 15).

6. LENDERS MORTGAGE INSURANCE (LMI)

LMI is required for all loans where the LVR exceed 80%. (See Section 15. For security LVR limits).

For loans requiring LMI, IBAL must provide the borrower with a fact sheet about LMI. The fact sheet must contain information outlining the key policy features and may be given in hard copy and electronic form.

7. FUNDS TO COMPLETE, GENUINE SAVINGS AND GIFTS

7.1 Funds to Complete

For all property purchases over 80% LVR, we must evidence that the customer has sufficient funds to complete the purchase, including costs. (e.g. Bank Statement, Letter from Solicitor, evidence of funds available in a line of credit, evidence of real estate sale price/existing debt).

When the LVR is 80% or less the assessors must be satisfied the customer has sufficient funds to complete the purchase including costs, based on the financial position of applicants.

7.2 Genuine Savings

In addition to Funds to Complete evidence of genuine savings of 5% are also required for LMI Loans when the LVR is over 90% (including capitalised premium).

Genuine savings can include:



- Funds held or accumulated regularly in savings/investment accounts or shares, for 3 months or more and held in the borrower's name (with Bank/Share statements to be provided as evidence).
- Equity in an existing residential property (Ownership evidenced by a rates notice).
- Borrowers who own other residential real estate unencumbered (which is to be confirmed at time of application via copy of title deed).
- May consider a gift / inheritance to make up the shortfall in savings, where savings have been sacrificed by making accelerated loan repayments (e.g. Personal Loans) over the last 3 months. In these circumstances, the existing savings plus the value of excess repayments must be equal to or greater than the minimum savings required. (IBAL is required to retain satisfactory evidence of savings and excess repayment verification on the loan file).

For a borrower who has demonstrated their ability to accumulate the required genuine savings over a period of less than 3 months (which could include a bonus or commission payment), then evidence of rental payments over the last 3 month period can be used as a mitigant to accept funds held for less than 3 months (with a Letter from a Real Estate or Bank Account Statement provided as evidence).

Genuine savings is not to include:

- First Home Owners Grant.
- Gifts and inheritance unless the funds have been held in the customer's account for at least three months.
- Proposed savings plans or projected savings of any kind.
- Sale of assets (other than real estate) for example; motor vehicles.
- Personal loans.
- Builder's rebate/incentive.
- Trade dollars.
- Funds held in company/business accounts.
- Any marketing "cash back" offer, even if they are a condition of the purchase contract.

7.3 Gifts

Any gift that provides borrower(s) with their deposit (equity) must be supported by completion of the ING Gift Policy Statutory Declaration (or equivalent) from the gift provider, stating that the monies are a non-refundable, non-repayable gift.



Note: This form must be used as it contains the necessary Privacy Act requirements.

Assessors must be comfortable with the genuineness of any gift and if doubt exists, may need additional support:

- a copy of a Bank account statement (not Internet or ATM produced) in the name of either the gift provider or the Applicant; clearly showing the amount of the gift;
- a Solicitor's letter confirming the funds are held in their trust account.

8. INCOME TYPES

There are basically 3 broad income groups:

- Pay-As-You-Go (PAYG) Income Earners;
- Small Business / Company (Self-employed); and
- Investors where major income sources include, inter alia, rental incomes and incomes derived from other investment activities.

Consideration needs to be given to the percentage of base income versus variable income types used to satisfy the serviceability test. Primary focus should be on base income with care to be exercised when a significant percentage of variable income is required.

8.1 PAYG Income Earners-Minimum Employment Requirement

Full time employment is 38 hours per week (or Award / industry equivalent)

- Minimum 3 months (6 months with LMI) with current employer ; or
- Minimum 2 years in a similar role/industry utilising a similar skill set

Note: The above requirements apply to permanent full time employees, for employees on different terms, such as part-time refer to Section 9 Income Verification.

Probation

Where borrower is still on probation, care should be exercised to establish history of employment/income to mitigate accepting the probation period. Possible mitigants to consider (but not limited to):

- The borrower is in a similar role/industry and/or has accepted a promotion;
- Increase in base income is considered reasonable, say up to 20%; and/or



- 12 months good conduct on existing loans.

8.2 Small Business/Company (Self-employed) Incomes

This type of income is acceptable if the applicants are sole owners, partners or proprietors of small business, or there is a clear agreement regarding partnership income/distribution of profits. In the case of shared income and or trust distribution, only the borrower's share should be included.

For company borrowers this includes that company's net income and acceptable addbacks.

A minimum of the last 2 financial years' incomes (i.e. defined as 1 July to 30 June the following year) should be taken into account when assessing the loan serviceability of a self-employed applicant. The most recent year's financials are to be no older than 19 months.

For high risk industries, BAS covering all that are due for the current financial year to the time of application are required.

In assessing company net profit for company borrowers, attention must be given to the following points:

- Net profit is income received in the normal course of business.
- When the profit before tax figure is used, then the current company tax rate should apply to derive the after-tax position.
- There must be no double counting, e.g. net profit is derived after deduction of Director/Consulting fees, salaries or other forms of remuneration paid to shareholders/partners/directors in the business.
- The net profit used for the assessment of loan serviceability should reflect a company's true cashflow position, rather than purely an "accounting" profit in the context of accrual accounting.

8.3 Other Incomes

Proof of all other income, such as superannuation, pensions, annuities, income from property investments, income from share portfolios or income from other family investments must be substantiated at the time of application.

For those applicants who will rely on this income to repay the loan once they retire, their asset and liability position should also be carefully assessed to determine how the debt will be cleared in the future – i.e. can the debt be cleared by:

- Normal income cash flows; or
- By sale of investment assets (e.g. shares/bonds/managed funds); or
- By partial superannuation payout; or



- Realisation of equity in other real estate investment.

8.4 Unacceptable Income Types

The following income types are not allowed in calculation of loan serviceability:

- Family Allowance or Social Security Payments (e.g. unemployment benefits, new start, aged pension, carers allowance);
- Workers compensation;
- Rental Income from holiday homes or short term rentals
- Maintenance / Child Support that cannot be verified with the Child Support Agency or where verified has less than 5 years to run; (Section 9)
- Undeclared cash income not evidenced in tax returns (e.g. Boarder income and sub-letting);
- Irregular income (e.g. odd jobs, income outside the types detailed in Section 9);
- Drawings / directors loans are not acceptable as it is a reduction of capital and not income;
- Income from any illegal pursuit.

Please note the following in confirmation of incomes:

- If sufficient documentation is not provided or if any doubt exists regarding the information provided, contact the originator of the document to confirm details of income.
- Please ensure that all Tax File Numbers are removed from copies taken and kept on file.
- Tax agent or accountant prepared tax returns are acceptable. The return must show the following:
 - Tax agent reference number
 - Name and address of tax agent or accountant
 - Accountant or tax agent disclaimer.

9. INCOME VERIFICATION

Only the following income types covered in this section are acceptable.

Any income declared in acceptable income types must be verified. I.e. it is not an option to remove income because the applicant decides not to provide..



Permanent Full Time	Bonus/Commission	Shift/Overtime
Car Benefits	Allowances	Salary Packaging and Salary Sacrifice
Parental Leave	Rental Income	Self-Employed- Company Director
Self-Employed	Permanent Part-time	Second Job
Contract Income	Casual Employment	Child Maintenance
Veterans Affairs/War Widows/Carers Pensions		Investments
Superannuation		

Where any doubt or question exists to the authenticity/validity of the verification documentation, employment verification via telephone is to be completed (refer Section 9.1).

Notwithstanding the following sections, where the borrower(s) is employed by family, or through a family owned or family controlled company, payslips must be supported by taxation returns/ATO Income Statements and ATO assessment notices.

The following table details acceptable types of income, verification required and the percentage of incomes that can be accepted for servicing. No overseas income is acceptable.

Income Type (Percentage of income accepted for servicing)	Standard Verification Required
Permanent Full Time (100%)	<ul style="list-style-type: none"> Where using base income only, verification using the 2 payslips (no older than 60 days). OR <ul style="list-style-type: none"> Three months bank statements showing a regular salary credit, with the name of the employer OR <ul style="list-style-type: none"> Provide payslip (less than 1 month old*), preferably with YTD figures; <u>and</u> Provide last year's tax return or assessment notice or ATO Income Statement or PAYG Payment Summary. <p>As a minimum payslips should show the borrower's name, employer's name and ABN.</p> <p>All dates are based on the date of submission</p> <p>*For monthly payslips an additional 15 day period is acceptable.</p>
Bonus/Commission (80%)	<p>When expected to be a regular component of a borrower's salary.</p> <ul style="list-style-type: none"> Regular monthly/quarterly basis, income to be evidenced for 12 months. Annual/irregular payments, income to be evidenced over 2 years.



	<p>Note: Bonus / Commission payments should be limited to no more than double an applicant's base income and if a significant increase from one year to the next is evident, an explanation of the cause(s) should be obtained and retained on file.</p>
Shift/Overtime-Permanent Full Time and Part time (80%)	When expected to be a regular component of a borrower's salary and if evidenced over 12 months .
Car Benefits	If the applicant's employer is providing a fully maintained car (not part of packaged income) then a maximum of \$3,500 per annum (post tax) can be included in loan serviceability calculations. . This benefit must be evidenced by the Employment Contract or letter from employer.
Allowances-PAYG income (80%)	<p>Allowances are acceptable however when utilising allowances for servicing purposes, care must be exercised to identify allowances that are associated with reimbursement of expenses (e.g. tool, uniform, entertainment), where generally these allowances would be 100% offset against an expense versus allowances to compensate for specialties of the occupation. (e.g. remote living allowance).</p> <p><i>Example: Military / Service Allowance is considered acceptable as this allowance compensates a member of the armed forces for the unique requirements that service life may impose on an individual and his or her family.</i></p> <p>Allowances must not exceed 25% of the applicant's base salary.</p> <p>Note: Car Allowances can be accepted at 80%.</p>
Salary Packaging and Salary Sacrifice	<p>Total package excluding the compulsory employer superannuation contributions can be used as the gross income. Unless clearly indicated on documentation already held (e.g. Voluntary Superannuation on Payslip etc.) all non-cash components of the package are subject to confirmation via letter from the employer that the borrower has the option to convert these items to cash.</p> <p>Care must be taken to understand whether salary sacrifice is voluntary or not, either from documentation already held (e.g. Payslip, etc.) or a letter from the employer. Many PAYG employees are able to salary sacrifice amounts for superannuation – if a borrower says he can cease doing this to be able to meet servicing criteria, this must then be added to the taxable portion of their income (as there will be no benefits moving forward).</p> <p>Some occupations e.g. Clergy, Health, Charity workers can elect to have only a portion of their income “salary sacrificed” i.e. deducted before tax. The “deducted” payments can be allocated for mortgage payments, utility bills or the like. For these borrowers' this portion can be inserted into the “Tax Free Income” box of the servicing calculator so as not to be included in the income to be taxed.</p>



<p>Parental Leave (To include normal salary while on leave)</p>	<p>When the applicant is intending to commence parental leave in the future or is currently on parental leave, their return to work salary can be included in servicing when they are returning to work with the same employer from a leave period of up to 2 years and supported by the following:</p> <ul style="list-style-type: none"> • A recent payslip (One month before parental leave was taken or one month before application submission if intending to commence parental leave); and • A letter from employer outlining the terms of the parental leave including applicant's right to return and return date, future employment terms (part time or full time, for example) and salary upon return. Letter must be dated no older than 60 days at the date of submission; and • Ensure any expected childcare and other related costs are included in Customer Declared Expenses; and • Include any expected child as an additional dependant <p>An additional assessment is required to confirm that all existing, new repayment commitments and expenses can be met at normal servicing requirements across the entire parental leave period. This must be evidenced and can include savings, existing home loan redraw (i.e. not part of this application), Government or employer parental leave payments (for the duration of their availability) and Family Tax Benefit Part A & Part B (Family Tax benefits to be verified via letter from Services Australia dated no older than 60 days at the date of submission). *Note any amounts considered for the period of parental leave cannot be added to normal salary in the servicing position post the parental leave period.</p>
<p>Rental Income (95% however 85% for investment properties located in a high risk or exception postcodes)</p>	<p>Rental incomes are assessed at 95% of current gross or anticipated receipts. Where the investment property is located in a high risk or exception postcode, only 85% of gross rental income will be assessed</p> <p>Acceptable evidence is:</p> <ul style="list-style-type: none"> • Rental statement; or • Bank statement issued within the last month of application submission confirming receipt of rental income; or • Current lease agreement; or • Letter from licensed real estate agents ; or • Tax Returns (only to be relied on to confirm consistency); or • Panel Valuer's estimates of the likely rental income (acceptable for purchases only). <p>Servicing is to be reassessed upon receipt of valuation to ensure the rental income used does not exceed Valuer's estimate.</p> <p>When accepting evidenced rental income a common sense approach should be applied to ensure that the rental returns are accepted at a reasonable level. Caution should be applied where rental guarantees are involved or when the rental income appears high when compared to the value of the property. We need to ensure the income is sustainable, in line with the general market and not linked to a short term venture (e.g. mining, display homes).</p>



	<p>Rental income must not be the major source of income, it should be limited to 50% of total income used in servicing (i.e total income used to pass servicing is \$100,000; \$50,000 non-rental income and no more than \$50,000 rental income.)</p> <p>Rental Income from holiday homes, short term rentals not acceptable</p> <p>When rent is derived from a share in an investment property then only the borrower's share of rental income is allowed.</p>
<p>Self-Employed-Company Director of private company</p> <p>(Variance in income)</p>	<ul style="list-style-type: none"> • Latest 2 years' personal tax returns; and • Latest 2 years' financial statements (including Profit & Loss Statement and Balance Sheet) or company tax returns • For high risk industries and when turnover is \$75,00 or more; BAS covering all that are due for the current financial year to the time of application <p>Most recent year's financials are not to be older than 19 months.</p> <p>Income must be assessed across two years' personal tax returns. This income can include salary, director fees, their dividend income from the company or their distribution from the net income from a trust.</p> <p>In cases when a company has made a loss there must be an appropriate adjustment to the servicing when using director's personal income.</p> <p>The company's net profit and addbacks can only be used when the company is a co borrower.</p> <p>A letter from their accountant confirming that their company/ companies are trading in profit and able to meet their financial obligations when due, can be accepted in place of company financials/tax returns.</p> <p>Where the variance between the last two years is $\leq 20\%$ it is acceptable to consider the most recent year's income figure in servicing if required.</p> <p>Where the income has decreased from the previous year without satisfactory explanation, it is appropriate to adopt the most recent year's income in your servicing assessment.</p> <div style="border: 1px solid black; padding: 5px;"> <p>Note: Where the self-employed income has increased/decreased substantially over the last 2 financial years (i.e. variance of greater than 20%), an explanation of the cause(s) must be provided.</p> </div>
Self-Employed	<ul style="list-style-type: none"> • Latest 2 years' personal tax returns; and • Latest 2 years' financial statements (including Profit & Loss Statement and Balance Sheet) or business, company tax returns. • For high risk industries and when turnover is \$75,000 or more; BAS covering all that are due for the current financial year to the time of application <p>Most recent year's financials are not to be older than 19 months.</p> <p>IBAL reserves the right to request interim financials if the need arises.</p>



<p>(Variance in income)</p>	<p>An average of the last two years income will be the default position for use in serviceability calculation.</p> <p>A credit assessor will need to consider the following when making their credit assessment to determine whether the default position is appropriate given the circumstances presented by the borrower.</p> <p>Where the variance between the last two years is $\leq 20\%$ it is acceptable to consider the most recent year's income figure in servicing if required.</p> <p>Where the income has decreased from the previous year without satisfactory explanation, it is appropriate to adopt the most recent year's income in your servicing assessment.</p> <div data-bbox="472 595 1385 797" style="border: 1px solid black; padding: 5px;"> <p>Note: Where the business/company's income has increased/decreased substantially over the last 2 financial years (i.e. variance of greater than 20%), an explanation of the cause(s) must be obtained and retained on file to support the treatment of income used in the serviceability calculation.</p> </div> <p>The following add-backs are permitted in loan serviceability calculation:</p> <ul style="list-style-type: none"> • Incomes/Salaries (not already included in calculation of personal gross incomes); • Interest paid (as evidenced within the Profit and Loss Statement) can be used as an add-back where the associated debt repayments are included in the applicants servicing position (i.e. Include repayment/commitment on debts and allow add-back of interest on the same debts); • Superannuation contributions in excess of statutory level; • Depreciation (where underpinning the replacement cost of an "essential asset that assists in the generation of business income", an appropriate haircut may be considered on a case by case basis) ; • Non-recurring expenses (explanation required from company accountant as to the nature of the expenses).
<p>(Add-backs)</p>	<div data-bbox="472 1464 1385 1653" style="border: 1px solid black; padding: 5px;"> <p>Note: When adding back "excess Superannuation", "interest paid on debts no longer current" and other "non-recurring expenses", these should be added back as "Taxable Income" for the company in the servicing spreadsheet.</p> </div> <p>The following are examples of add-backs not permitted under these underwriting guidelines:</p> <ul style="list-style-type: none"> • Rentals paid for leased assets that the company does not own; • Revaluation of assets; • Research and Development. <p>For additional information see Section 8.2.</p>



Permanent Part-time Incomes (100%)	As per Permanent Full Time income earners.
Second Job (100%)	As per Permanent Full Time income earners, when their term with the current employer is 12 months or greater. Total combined work hours capped at 60 hours per week.
Contract Incomes (100%)	If they have worked in the same role/industry utilising a similar skill set for a minimum of 2 years, as per Permanent Full Time.
Casual Employment (100%)	<ul style="list-style-type: none"> • Evidence of income as per Permanent Full Time. • In some cases it may be necessary to obtain a ATO Income Statement/PAYG Summary to confirm consistency of income. <p>Caution should be exercised where casual income is the sole source of income:</p> <ul style="list-style-type: none"> • Minimum 6 months in current employment; or • Minimum 2 years in the same role/industry utilising a similar skill set.
Child Maintenance Income (80%)	<ul style="list-style-type: none"> • Verification that the maintenance agreement is registered with the Child Support Agency. • Maximum age of maintained child to be 13 years old and evidence that agreement has at least 5 years to run. (to age 18). • Evidence of consistent payments through the past six months bank statements. • Should be considered supplementary income and used to mitigate a marginal servicing position.
Veterans Affairs/ War Widows/ Carers Pensions (100%)	<p>Veterans Affairs/War Widows/Carers Pensions incomes are subject to:-</p> <ul style="list-style-type: none"> • Satisfactory evidence from relevant Government Department. • These payments should only be considered as supplementary income source to the application, where the main stream of income is from any of the following: <ul style="list-style-type: none"> • PAYG • Self-Employed • Rental income • Investment income <p>Other government payments such as unemployment (e.g. New Start) and sickness benefits are unacceptable for the purposes of determining serviceability.</p>



Investments (80%)	<ul style="list-style-type: none"> • Evidence of investment income must be provided; • Must have similar income for the last 24 months; • Evidenced by the last 2 years' tax returns; and • A common sense approach should be applied to this income to ensure that the returns are accepted at a reasonable level, based on long term average (e.g. say 3%pa of current share portfolio).
Superannuation (80%)	<p>A sufficient balance in superannuation funds must be held to ensure pension payment is sustainable for the life of the loan. This is not required for a defined benefit funds (e.g. Lifetime pension plans for some ex-government employees)</p> <p>Satisfactory evidence must be provided confirming the amount of payment currently being received. This may require one or more of the following:</p> <ul style="list-style-type: none"> • Your latest superannuation fund statement showing regular payments from your superannuation investment. • Personal income tax return • A letter from your financial planner/advisor detailing regular payments from your superannuation investment <p>Confirmation needs to be obtained to determine if the income stream is tax free income for the applicant. If not then normal tax rates should apply.</p>

10. COMMITMENTS AND LIVING EXPENSES

All liabilities identified through the assessment process must be considered in servicing unless:

- Evidence that liabilities has been closed prior to full approval; or
- Reduced liabilities to be included, with supporting evidence prior to full approval; or
- A loan condition that the liabilities will be closed at settlement (noted in the letter of Offer) or IBAL crediting the funds into the account at settlement.

10.1 Mortgage Loans

This section is applicable for:

- mortgage loans being applied for;
- all existing IBAL & MM mortgage loans;
- other (non-IBAL) existing mortgage loans.

All the applicant's mortgage loans must be included in the servicing calculation and assessed on a Principal & Interest basis, over a maximum of 30 years, at the IBAL Assessment Rate. Consideration should be given to the impact of any interest only period granted during a loan term and the customers' ability to repay the principal over the remaining loan term.



For mortgage loans being applied for, the IBAL Assessment Rate is dependant on the loan type

- For variable P&I loans- the higher of the floor assessment rate of 5.50% OR the initial borrower rate, plus a buffer of 3.00%.
- For variable interest only loans- the higher of the floor assessment rate of 5.50% OR the equivalent P&I variable rate, plus a buffer of 3.00%.
- For fixed P&I or fixed interest only loans- the higher of the floor assessment rate of 5.50% OR the equivalent P&I variable rate, plus a buffer of 3.00% OR the initial fixed borrower rate.

N.B. Equivalent P&I variable rate is the rate applied to a loan of equivalent product, purpose, size and LVR with a principal and interest variable interest rate at point of origination'

For all existing IBAL & MM mortgage loans and other (non-IBAL) existing mortgage loans the IBAL Assessment Rate is the higher of the floor assessment rate of 5.50% OR the customer rate, plus a buffer of 3.00%.

Any pre-existing loan where the new applicant is a co-borrower can be factored into the servicing calculation based on 50% of the pre-existing loan when we obtain current evidence that the co-borrower can service the remaining 50% of repayments. For existing IBAL & MM loans this could include referring to the original assessment when there is no reason to doubt this position has changed.

If the above cannot be satisfied the existing debts and repayments should be factored into the servicing assessment of the new loan at 100% (i.e. joint and severally).

10.1.1 Home Loan Customers with Commercial Facilities

For commercial loans, the IBAL Assessment Rate is the higher of the product rate plus a buffer of 1.5% or a 'floor' assessment rate of 7.5%.

Using the above assessment rate repayments are also determined by the type of loan:

- Principal and Interest repayments- are assessed on principal & interest over a maximum loan term of 20 years.
- Initial Interest only switching to principal and interest repayments- assessed on the residual principal and interest period over a maximum loan term of 20 years.
- Interest only - assessed at interest only repayments

10.1.2 Personal Loans and other Loans

All personal loans and other regular loan commitments (including car leasing) are to be included in the serviceability assessment at the higher of the contracted repayment or P&I repayments for the loan amount over 7 years at 10%pa interest rate.



Note: 10% has been selected because it is seen as a reasonable rate given the range of interest rates available in the market for both fixed and variable funding.

10.1.3 Credit Card Repayment

Orange One repayments are assessed based on the higher of 5% of the limit or \$100 on a monthly basis.

All other credit card repayments are to be assessed at 3.8% of the limit per month.

10.1.4 Overdraft and other Unsecured Line of Credits

These facilities should be assessed at 3% of the limit per month.

10.1.5 Buy Now Pay Later (BNPL)

BNPL with an ongoing/revolving limit are to be recorded and treated as credit card liabilities.

BNPL with a remaining term (i.e. instalment plan) are to be recorded and treated as personal loans with the outstanding debt amount and minimum monthly repayment commitment of the BNPL facility captured.

Where it can be established that usage of a BNPL facility is short term and temporary in nature (i.e. close prior to settlement), and confirmation is received from the borrower(s) or the acting broker to this effect, the debt can be omitted from assessment. This information is to be noted on file.

10.1.6 HECS HELP Debts

HECS and HELP debts are repaid via the ATO income tax system. The level of repayments are not determined by the level of debt, they are determined by level of the applicant's income.

Repayments used in servicing are the higher of declared or the amount payable using the compulsory ATO repayment rates.

Capture of both the monthly repayment and total outstanding debt amount is required in all cases.

10.1.7 Consideration of Negative Gearing on Tax

Negative gearing benefits are to be split equally between borrowers.

These are displayed as "Max Allowable Deductible Payments" field within the Excel Servicing Calculator.

10.1.8 Margin Loans

A margin loan commitment can be excluded from the serviceability test where investment income derived from shares supporting the margin loan is not included in the servicing test.



Where any investment income derived from shares supporting the margin loan is required for servicing purposes and/or a credit assessor has concerns over the impact the margin loan may have on the borrowers financial position or ability to service their commitments, the following treatment can be adopted;

- an interest only repayment on the full Margin Loan limit calculated at the IBAL assessment rate to be included as a commitment; and
- include investment income confirmed in line with the current underwriting guidelines. (Refer Section 9.

Negative gearing benefits can be attributed to the Margin Loan limit, where required.

10.1.9 Vendor Finance

Occasionally vendors will assist purchasers (our borrower) by offering a portion of the purchase price under a vendor finance arrangement. This means that not only does the purchaser have an obligation to IBAL, but also to the vendor. These arrangements are not normally reflected in the contract of sale, and so will not be readily identifiable unless we seek evidence of funds to complete (refer Section 7.1).

The arrangement is usually secured by either the lodgement of a caveat or second mortgage on title. IBAL is not generally accepting of these arrangements as it weakens the equity/savings position, it may limit the borrower's ability to repay our loan, and also our ability to realise our security property if the need arises.

Unless the arrangement is of a formal nature, with regular repayments which can be included and meet our servicing requirements, and we have a deed of priority in place, applications where vendor finance is involved are unacceptable.

10.2 Expenses

As a guide, total commitments should include expense items such as the following:

- All existing debt repayments including credit cards and any interest free purchases (in joint or individual names);
- Hire purchase/lease repayments;
- Rent or board that will still be payable after loan approval;
- Maintenance payments, irrespective of whether a court order exists;
- HECS-HELP debts;
- Taxation liabilities- Care should be exercised when dealing with applicants with significant taxation liabilities;
- Living expenses.

10.2.1 Living Expenses

When considering if the loan is not unsuitable to an applicant, the serviceability of funding is considered which incorporates the applicants' current expenses and those future expenses associated with the transaction (e.g. for a property purchase the costs of the new property such as rates, strata, insurance etc.).



Customer living expenses are calculated using the declared non-basic living expenses and the higher of the declared basic living expenses or ING's Living Expense Benchmark. The benchmark is subject to quarterly review or on an ad-hoc basis as the need arises.

As a first step basic declared expenses are compared to our benchmark to check if the amount declared is reasonable.

Additional enquiries when declared expenses are significantly below benchmark

Declared Expenses must be reviewed and a reasonableness check applied. For example where the applicant has advised they spend \$10 per month for groceries, this does not appear reasonable. In this instance the applicant may have misread the period (i.e. per week/month) or may have completed with a typo. Additional checks that could be made include cross referencing with the characteristics of the applicant (e.g. single person living with parents) and any supporting notes provided from Brokers that represent aspects of the applicants' financial position that should be considered. The declared expenses may be supported by information received from reviewing bank statements, details from bankstatements.com or similar.

ING's Living Expense Benchmark does not include current rental expenses.

For sole applicants that have a partner, living expenses must be based on those of a couple.

If any supporting documents (e.g. Medicare Card, Tax Returns) are supplied as part of the loan application, the number of dependants must be compared to the number declared on the application form.

10.2.2 Living Rent Free

Where applicants declare they are to live "rent free" or a low rental situation in an unrelated property to that being purchased/refinanced, an allowance for rent/board must be included in loan serviceability. Unless evidence is obtained confirming it is a condition of employment

The following minimum allowance can be used for rent/board:

- Sole applicant - \$758 per month (\$175 per week).
- Sole applicant and dependant children - \$1,083 per month (\$250 per week)
- Two applicants - \$1,300 per month (\$300 per week).
- Two applicants and dependant children - \$1,408 per month (\$325 per week).

Note: the above guide is an estimation and does not factor in issues such as differences in geographical locations and economic factors.

10.2.3 Investment Property Costs

Investment property costs must be included in servicing when the customer holds any investment properties.



Expenses should include: body corporate fees, management fees, repairs, rates, maintenance costs, etc. and exclude depreciation, purchases cost, interest paid, etc.

Investment property costs must be the higher of 25% of gross rental income or the actual investment property costs declared.

11. SERVICEABILITY

An applicant must demonstrate that he/she can service the loan or that the company borrower (if applicable) is a viable entity with an ongoing ability to service the loan commitments.

For loans to companies IBAL may also consider and rely on the resources of third parties available to the borrower in ascertaining capacity to repay where it is reasonable to do so. In order to consider those resources the third party must guarantee the loan and be a director, shareholder or trustee beneficiary. Income from third parties (including companies) cannot be used when there are only individual borrowers.

If there is material doubt about the loan servicing capability (interest and principal repayment) of the applicant(s) ING will not lend based **only** on the security LVR coverage for a loan. (i.e. LVR does not mitigate a negative servicing position.)

Loan serviceability calculations are based on post-tax income, and to pass loan serviceability assessment, borrowers must meet the net income surplus test.

Post Tax Income – Total Commitments* (including Living Expenses) = Net Surplus

Minimum Net Surplus requirement currently stands at \$1

*Calculated using the mortgage assessment rate, on all Mortgage debt commitments-including IBAL/MM/External Mortgages (Refer **Section 11.2** and the **ING Loan Serviceability Assessment Model** for details).

11.1 Debt to Income (DTI)

Higher DTI ratios indicate higher risk loans. For this reason the following policy thresholds apply

- For loans with an LVR up to 70% DTI must be less than 8.
- For loans with an LVR over 70% DTI must be less than 6.

DTI ratio is calculated on the basis of all loans / sum of all gross eligible income (excluding shading).

The peak debt for bridging loans with a maximum 3 month period approved under RMUG Section 4.1.2 are excluded from DTI. However DTI requirements apply to residual loan amount.



12. CREDIT CHECK REPORTS

Credit check reports are one of the items used to assess the credit worthiness of the applicants. It is therefore important to obtain a report on all applicants including cross referenced files. Reports should be obtained for related companies and all guarantors.

A signed Privacy Consent Form must be held in the file prior to requesting a credit check report on an applicant/guarantor.

Credit check reports (not older than 1 month from the date of loan assessment) must be provided for all applicants and guarantors (whether they are individuals or companies). Where the borrower is self-employed, a satisfactory credit check report will be required for the borrower, any guarantors (if applicable) and all private companies or firms with which that person is associated (e.g. Company Director/Business proprietor). Where the borrower is a director of a public company (listed on ASX), it is not necessary to obtain a company Veda report.

Where we are aware that an applicant has changed their name (marriage, professional/ stage name, etc.), then a credit check report must be obtained under all the applicant's names.

Veda credit bureau report – a listing of all loan and credit enquiries, defaults, legal judgements and credit disputes for individuals, small businesses and companies operating in Australia. Information includes company structure, directorships, and major shareholdings. The report includes links to the Australian Securities and Investment Commission (ASIC), Business Name Extracts, Telstra Electronic White Pages and Investigative Reports.

The information on this report is maintained for up to 7 years after the lodgement date.

Comprehensive Credit Reporting

IBAL participates in Comprehensive Credit Reporting. Any existing facilities discovered from the bureau must be included in servicing unless evidence is provided confirming the liability has been closed. Undisclosed liabilities will be considered in the applicant's servicing position.

If any existing commercial debts are held by the applicant a manual assessment of undisclosed debts must be completed.

Cut-Off Score

All applicants and guarantors score must exceed the minimum cut off score.

Unacceptable History

Evidence of the following on the credit listing or from IBAL records for any borrower is outside policy:

- Undischarged or discharged Bankrupts;
- Any court judgements, actions, writ or summons;
- Current winding up petitions;



- Clearouts;
- Liquidator appointed;
- Receiver or Manager appointed;
- Part X (ten) or scheme of arrangement.
- Where there is evidence that the customer has been in hardship in the previous 12 months (Care to be taken to ensure borrowers are financially stable);
- Customer has ever been in 2+ (greater than 60 days) payments past due in last 12 months

Adverse Credit History

Any adverse credit listing in the report will render the application outside these Underwriting Guidelines. Should there be an application worthy of consideration, then a full explanation regarding all listings and the status at the time of application will be required.

For the purpose of these guidelines, adverse credit is defined as:

- Any arrears on loan statements for refinance (either current arrears or any time in the previous 6 months);
- Any evidence where accounts have exceed their approved limit or gone into overdraft
- Any evidence of unexplained missed payments (additional/default interest, late payment fees, and odd payment amounts when instalments are made by periodical payments);
- Default listings on credit check report (either borrowers or guarantors);
- Unpaid debt listings on credit check report, or paid within the last six (6) months (note – these must be treated on a case by case basis);
- Current Rate arrears (where evident).

Where adverse credit is evident, 12 months loan statement for any existing loans may be beneficial.

Specific attention must be paid where more than 6 separate credit enquiries are listed within the last 12 months. The credit assessor is to review the Credit Check Report, and satisfy themselves that the customer is a suitable risk and these activities do not adversely affect the applicant(s) creditworthiness if necessary by seeking additional information/explanation. N.B. Enquiries to a variety of lenders, for a similar amount, may be treated as one enquiry.

Note

- If there is no satisfactory explanation provided, the loan will be declined.
- Care should be taken when defaults have been cleared just prior to lodging the application because this could have been done just to advance the application.
- Applicants seeking a loan with an LVR in excess of 80% where their credit check report reveals any aspects of adverse credit will be considered on a case by case basis.



A credit check cannot be waived.

Ban Period

At an individual's request a Ban Period can be placed on a person's credit check report due to concerns regarding fraud. Instead of receiving a credit check report, a message indicating a ban is in place will be received. No loan assessment can occur until the ban period ends and a complete credit check report is received.

13. SECURITY

13.1 Acceptable Security

13.1.1 First Mortgages

It is mandatory that IBAL holds a **first registered mortgage** as prime security in support of any residential loan application. The property must be an acceptable security type and within the specified LVR guidelines.

A second mortgage is only permitted as collateral (top-up) security with the exception of Defence Service Homes, where a second mortgage is acceptable as a prime security. (See Section 13.1.11– Second Mortgages)

Note: For units and apartments, the minimum living area is 40 sqm. (In some situations car spaces or garages attached to a unit/apartment may be on a different title to the actual residence. In these cases, a mortgage over the additional title should also be taken).

13.1.2 Normal Residential Dwelling

Residential dwellings are defined as land and buildings which are free standing; attached/ semi-detached or company title (with four or more dwellings in the development) or strata/community-titled unit, SEPP 5 zoned dwellings also known as "Over 55's" or "Seniors Living" dwellings commonly found in a specific community environment (but not to be confused with a Retirement Village), and are used exclusively for the purpose of private housing and can be either leased or owner occupied. All major facilities must be connected (e.g. road access, power, phone, water etc.) with a certificate of occupancy (or its equivalent) issued for each security property.

Residential dwellings include purpose built residential units located in developments that might be zoned commercial/business due to commercial units/shops included in the same development.

A maximum of 2 completed dwellings on the one title is acceptable security, includes duplex, battle axe and granny flat.



13.1.3 Residential Acreage or Rural Residential Zoning (includes hobby farms)

A property that is zoned residential, rural residential, rural, farming or any similar zoning (but not commercial or industrial, etc.) and is usually situated in fringe city or town locations. The use of the property must be solely for the purpose of private residential occupation, including private residential occupation by tenant. The property should have road access and basic utilities (e.g. power, water, sewerage etc.) connected.

It **must not** be used for:

- Commercial purpose or generation of incomes from farm produce; or
- Short term 'speculative' investment or development purposes.

Note: If the property generates minor levels of income from hobby farm type activities; the property can still be accepted for deals with strong mitigants. When this income is not used in the servicing assessment, any income potential is excluded from the valuation process. Refer **Section 15** for applicable LVR's.

13.1.4 Smaller and Inner City Apartments

The minimum living area for all units (includes bachelor units, bed-sitter, studio, 1 bedroom apartments) is 40 sqm.

Apartments and units located in Central Business Districts (CBD) or at the fringe of CBD areas, tend to have an increased chance of the containing the following:

- Guaranteed rental returns;
- Sold fully furnished;
- Have an increased risk of oversupply;
- Tendency for newer stock with little resale history.

Valuations should disregard the value of rental guarantees, furniture or any other incentives that have been included in the purchase.

Some locations have been classified as Exception Postcodes (Refer **Section 14**) and are only acceptable at a reduced LVR (Refer **Section 15**).

It should be noted that some properties have an operating lease or management agreement governing the use, occupation, management and sale, and cannot be accepted as securities.

13.1.5 Off-the-Plan Purchase

This includes property up for sale at the initial stage of planning, under construction or an existing building undergoing major refurbishment, and includes any proposed strata lot in an unregistered unit strata plan. The application has to be submitted with a stamped Contract of Sale and, if credit criteria are met, will be given an indicative approval subject to satisfactory "As if Complete" valuation.



The LVR applicable will be dependent on the Security (type of security, size of the property etc.).

Updated financials may be required for re-assessment of any approval where completion/settlement does not occur within the timeframe allowable under the approval i.e. greater than 3 months. The front and special conditions pages (at a minimum) of the Contract of Sale are to be perused by the approving officer to ensure there are no rebates/incentives involved in the purchase. If there are, then the Valuer will need to be advised accordingly, and adjustments may need to be made to the security value.

Valuations should disregard the value of rental guarantees, furniture or any other incentives that have been included in the purchase.

Off-The-Plan Contracts that last at least 12 months

Where the value of the property has increased during the construction period IBAL will consider lending against a maximum 100% of the agreed purchase price, noting the loan should not exceed standard security LVR parameters based on the current valuation.

Validity of Valuations

Valuations should be conducted at practical completion of such projects with settlements expected no later than 3 months from valuations.

Note: Valuers are required to include comparable sales outside the subject properties – should not principally rely on sales within the subject properties.

13.1.6 Favourable Purchases

A favourable purchase arises in circumstances where IBAL is asked to provide finance against a security property that is being “purchased” at a price below its perceived market value.

These proposals most commonly arise in family situations where a parent or a close relative is selling a family property to a child or close relative in order to assist entry into the property market.

Less frequently, this may also arise as a result of a business relationship where, for example, a developer may sell a property to a business associate at a reduced price.

13.1.6.1 Requirements

For IBAL to consider providing finance in the case of a favourable purchase, the following conditions must be satisfied:

- Borrowers are required to provide a Statutory Declaration from the vendor stating that the equity in the property is being gifted and is not subject to being repaid at any time in the future. See also **Section 7.3 “Gifts”**, for details of required evidence.



- All usual underwriting guideline requirements must be met (e.g. pass serviceability requirements, clear credit bureau etc.).
- Valuation is required in all cases. The valuer is to be advised of the nature of the transaction and the proposed purchase price, and specifically that it is a favourable purchase.
- IBAL will lend against the actual valuation.
- The asset and liability position of the applicant is to be appropriate with the age and personal circumstances of the applicant.
- Where the relationship between the borrower and vendor is of a personal nature and LMI is required, the applicant is to provide evidence of genuine savings as per LMI underwriting requirements.
- Debt consolidation, non-structural home improvements and cash out, can also be considered in terms of existing underwriting guidelines.

13.1.7 Leasehold Property (Crown Lease)

This is only applicable to property located in the ACT or other known leasehold properties. Lease term remaining must exceed term of the loan by at least 5 years, no matter what the requested loan structure is.

The LVR applicable will be dependent on the Security LVR (type of security, size of the unit etc.) in **Section 15**.

Note: Crown Lease or other government departments are acceptable.

13.1.8 Residential Vacant Land Security

Vacant residential land is unacceptable as stand-alone security except where it is to be provided as “top-up” security (maximum LVR 50%).

For top-up security, vacant land is subject to the following guidelines:-

- Must be zoned residential;
- Must have sealed road access and connected utilities (i.e. power, water phone & sewerage);
- The land must not be used to derive farm income – it must be solely for private residential purposes;
- Valuation is mandatory and must confirm that the land is a suitable building block and meets the requirements for residential construction as advised by the relevant local authority;
- Registered first mortgage security only;



- No commercial vacant land will be accepted as security.

13.1.9 Stratum Title

Each owner has a certificate of title and is absolute owner of a freehold flat. A service company (in which each flat titleholder has shares) has the title to the common property and administers, manages and maintains the property in which each owner's flat is registered. Each flat titleholder is free to dispose of their freehold as they wish, but has a responsibility to the service company in which they have shares.

We would require:

- Our interests to be noted, and secured accordingly.
- Where applicable, the value of same is included in our valuation.

13.1.10 Deed of Charge

IBAL's preferred security is freehold property however, cash collateral (held with ING) is accepted in short term scenario's when:

- An existing borrower is to substitute security property, but the current security property is to be released prior to the new security being perfected. IBAL will hold settlement proceeds as the security for the loan (at a maximum LVR of 100%) until the new security property is settled.
- The cash is to be lodged in a suitable IBAL deposit account (to be "Stopped"), with the necessary security documents (including Deed of Charge and Setoff) prepared by IBAL Panel Solicitors.

13.1.11 Second Mortgages

(This section does not apply to borrowing's that are supported by a second or subsequent mortgage behind an existing IBAL first mortgage as part of the cross collateralisation of an existing borrower's debts).

Second mortgages are not permissible as prime security for a loan with the exception of Defence Service Homes (**Section 13.1.11.1**)

In addition, no concurrent request for a second mortgage will be allowed. i.e. where a borrower's requirements exceed our Policy (e.g. Refinance) we would not be a part of a proposal where the remainder of the loans to be refinanced are left to another lender who requires a second mortgage behind IBAL.

Refer also **Section 10.1.7** Vendor Finance.

IBAL will only accept second mortgages (where the first mortgage is to another financial institution) as collateral/top up security. The total amount available for borrowing is restricted by product postcode and other security restrictions. The calculation of the amount available for borrowing is to include one year's simple interest on the other lender's (first mortgage) debt as shown below.



Viz:-

Value of security	\$625,000
Total borrowing required:	\$500,000 ¹
Other lender's debt (1 st mortgage)	\$125,000
Add one year's interest (7.24%)	\$ <u>9,050</u> ²
Total amount to be applied	\$134,050
Available for IBAL loan	\$ <u>365,950</u>
Total borrowing available	\$500,000

¹ Assessed at 80% LVR – note postcode, product and other product and security restrictions may apply.

² Utilise Mortgage Simplifier Rate for Broker/Direct or Reference Rate for MM.

Note: The following considerations **must** be taken into account when contemplating a second mortgage as security:

1. Second mortgage securities often lead to delays in settlement and borrowers should be made aware that any such delays can be outside IBAL control; and
2. Second mortgages should be registered on title to protect against subsequent charges being registered and ranking in priority.

13.1.11.1 Government Loan Schemes for eligible Australian Defence Force members & ex-members

IBAL will allow a second mortgage as prime security where the first mortgagee is that appointed under the Defence Service Homes scheme.

Information on the scheme can be found on the following Government website (www.dsh.gov.au).

In the case of this Government scheme, one year's interest on the first mortgage is not required to be taken into account.

A Deed of Priority is required in all cases.

13.1.12 Queensland Securities

The Department of Natural Resources in Qld have a paperless title system, meaning that the majority of properties in Qld do not have a Certificate of title issued unless specifically requested. Currently, the process for completion of documentation includes:

- IBAL solicitors to lodge a settlement notice, preventing any other transaction (other than our mortgage) for a period of two months (acts like a caveat).



- Documentation issued, accompanied by a Witnessing Certificate that needs to be executed by certain qualified people e.g. a Solicitor, Justice of the Peace. The witness has to identify the parties involved.

On the day of settlement, a title search is undertaken to ensure our dealing is the only one present – if not, then our funds are withdrawn.

Action in relation to verification will therefore be necessarily decided upon by our Solicitors at documentation stage, depending upon whether or not the transaction is “paperless”.

13.1.13 Guarantees

A guarantee is a contractual promise given by a third party that makes the person liable in the event of default by the debtor. When reviewing the use of a guarantee the following should be taken into consideration as appropriate:

Contents of a Guarantee

The guarantee **must** incorporate the following provisions:

- Guarantee obligation - an obligation on the guarantor to pay the money owing on demand if not paid by the debtor.
- Indemnity - if for any reason the debt is not recoverable against the debtor or the guarantor, the guarantor must indemnify the financier for any loss.
- Extent of guarantee - the guarantee should state that the liability of the guarantor would not be affected by:
 - Any variations of the transaction or the documents between financier and debtor;
 - Failure by the financier to enforce any security held by the debtor or any other person;
 - The release of any security held by the financier for the guaranteed money;
 - The insolvency of any party to the transaction;
 - An increase in the amount guaranteed (in such instances the written consent of the guarantor to the increase must be obtained);
 - The money or any part of it not being recoverable from the debtor or any co-guarantor;
 - A clause prohibiting the guarantor from exercising any right of set-off, or any right of subrogation, or claiming the benefit of any security held by IBAL, or proving in liquidation or bankruptcy of the debtor before IBAL has been paid; and
 - A clause under which the guarantor must pay all costs in relation to enforcement of the guarantee and requiring interest to be paid if the guaranteed money is not paid when due.



- A prominent notice to the effect that:
 - the guarantor, before signing the guarantee should seek independent legal and financial advice;
 - the guarantor may refuse to sign the guarantee;
 - there are financial risks involved;
 - the guarantor can limit their liability under their guarantee. The guarantee should also provide that the requested limitation may not be accepted if:
 - the amount, or nature, of the proposed limit does not cover the borrower's existing liability under the relevant loan contract at the time;
 - IBAL is obliged to make further advances to the borrower; or
 - IBAL would be unable to preserve the current value of an asset that is security for the loan without making further advances.
 - the guarantor can request information about the transaction or loan; and
 - if applicable, that the guarantee may cover future credit facilities and variations of the existing loan.
- How a guarantor may withdraw from their guarantee (i.e. prior to credit being advanced or, if after credit is advanced, if the loan contract differs in a material respect to the loan contract provided to the guarantor)
- How a guarantor may end their guarantee (i.e. by making payment of the guaranteed debt or by entering into other arrangements acceptable to IBAL).
- How, and the circumstances in which, the obligations of a guarantor under a guarantee may be varied or extended.

Before accepting a Guarantee

- IBAL **must** tell the guarantor:
 - about any demand for payment that IBAL has made on the borrower for the guaranteed loan, or any loan the borrower has (or has had) with IBAL, within the previous two years; and
 - if any existing loan IBAL has given the borrower will be cancelled if the guarantee is not provided.

Note: These obligations do not apply to a commercial asset financing guarantor, sole director guarantor or trustee guarantor. If the guarantor is a director guarantor (other than a sole director guarantor), IBAL must tell the director guarantor that they have the right to receive the information referred to above and that the information may affect their decision to give a guarantee. IBAL must not influence the guarantor's decision of whether to receive the information.



- IBAL **must** give the guarantor a copy of the following documents in relation to the borrower:
 - the proposed loan contract;
 - a list of any related security contracts;
 - any related credit report from a credit reporting body;
 - any current credit-related insurance contract that is IBAL's possession;
 - any financial accounts or statement of financial position the borrower has given IBAL in the previous two years for the purposes of the guaranteed loan;
 - the latest statement of account relating to the loan for a period in which a demand for payment was issued by or on behalf of IBAL; and
 - other information we have about the guaranteed loan that the guarantor reasonably requests.

Note: These obligations do not apply to a commercial asset financing guarantor, sole director guarantor or trustee guarantor. If the guarantor is a director guarantor (other than a sole director guarantor), IBAL must tell the director guarantor that they have the right to receive the documents referred to above and that the documents may contain important information that may affect their decision to give a guarantee. IBAL must not influence the guarantor's decision of whether to receive the documents.

Signing a guarantee

- IBAL must give the guarantee documents directly to the guarantor of their authorised representative. IBAL must not give the guarantee documents to the borrower, or to someone acting on behalf of the borrower, to arrange for signing of the guarantee.
- If IBAL attends the signing of the guarantee, IBAL must ensure that guarantor signs the guarantee in the absence of the borrower.

Note: These obligations do not apply to a commercial asset financing guarantor, sole director guarantor or trustee guarantor.

- IBAL must not accept a signed guarantee until the third day after the guarantor has been given the guarantee documents and information referred to above. IBAL can accept the guarantee within the three day period if the guarantor:
 - has obtained independent legal advice and if required, financial advice about the guarantee;
 - has accepted an extension of the guarantee;
 - is a commercial asset financing guarantor, sole director guarantor, trustee guarantor or vehicle asset financing guarantor; or
 - is a director guarantor and they choose to sign and deliver the guarantee earlier. IBAL must not influence the director guarantor's choice.



Provision of information to a guarantor during a guarantee

- IBAL must give a guarantor the following information about a borrower's deteriorating financial position as it relates to the guaranteed loan within 14 days' of the relevant event:
 - a copy of any formal demand or default notice IBAL sends to the borrower;
 - a written notice if the borrower has advised IBAL that they are experiencing financial difficulty which has resulted in a change to the borrower's loan; and
 - a written notice if the borrower is in continuing default for more than two months after the issuance of a demand or default notice referred to above.
- IBAL must give additional copies of any information given to a guarantor within 30 days of being requested by the guarantor, unless that information was already provided within the previous three months

Note: These obligations do not apply to a commercial asset financing guarantor, sole director guarantor or trustee guarantor.

Guarantees for less than the Full Amount of the Debt

Where there is a request for a limited guarantee, e.g. a transaction supported by a guarantee for an amount less than the total debt of the borrower, this does not comply with underwriting guidelines except for Family Support situations (**Section 3.1.5**).

Joint and Several Guarantees

In a situation where an application is presented with multiple guarantors, each guarantee must be provided on a joint and several basis. If they are only provided on a several basis, this is considered to be outside underwriting guidelines.

Guarantees from Companies

Considerations when guarantees are taken from companies include:

- Guarantees are to be obtained from owners or directors;
- Directors' conflicts – are any directors of the company under a conflict of interest in relation to the execution of the guarantee? If so, do the Articles or Constitution allow the company to enter into a transaction where a director has an interest and permit this director to vote?
- 'Uncommercial' transaction - will the giving of the guarantee constitute an 'uncommercial' transaction under the Corporations Law?; and



- Trustee company - is the company a trustee? If so, does the trust deed allow the trustee to give guarantees and indemnities?

Where the borrowers are the shareholders and directors of the company, we do not accept a guarantee from the company for servicing purposes..

In order to limit risks involved in accepting a guarantee from a company, the following guidelines must be applied:

- Obtain Australian Business Number (ABN) for GST purposes, if required;
- Obtain Veda Advantage report on all directors who are also shareholders (if a private company). Highlight any defaults, legal judgements etc. (if any) and attach a full explanation;
- Preferred a minimum operating period of two consecutive years. Companies operating less than two consecutive years must show that management has the experience and skill to promote the company in its proposed line of business (cashflow projections for the next 12 months may also be required).

General requirements

- All people providing security who are not borrowers must be guarantors.
- Income details and Assets & Liabilities should be provided by all guarantors.
- Generally, where the guarantor is an individual, the guarantee must be signed personally by the individual and not by a power of attorney. Refer Section 3.1.8.2.
- A Credit Advantage report must be conducted on all individual and company guarantors.
- If there are multiple guarantors, each guarantee must be provided on a joint and several basis.
- A minor (a person under the age of 18) is unacceptable as a guarantor or third-party security provider.
- A guarantor should add weight to the application and therefore contribute to minimising or improving risk.
- All guarantors must be Australian residents.

Guarantee from Trusts and Trustees

The two types of trusts usually encountered by lenders are:

- Unit Trust: Beneficiaries hold defined units which identify their entitlement in the trust; or



- Discretionary Trust: Trustee at its discretion can select the beneficiaries and determine the level of their entitlements; potential beneficiaries have no property and hold no units.

Note: IBAL does not accept guarantees from superannuation funds, not for profit organisations or Hybrid Trusts.

A trust is always required to have a trustee. The trustee is the legal owner of the trust assets and has a right of indemnity out of the trust assets.

The following guidelines can be used to assist staff in ensuring that parties to a loan or security transaction are correctly identified where IBAL advances monies or takes security or a guarantee from an entity acting in a capacity as a trustee of a trust as well as in its own capacity:

Where IBAL takes a guarantee from an entity/individual in its own capacity and as trustee of a trust, the “Security” section of the Loan Offer letter should refer to guarantor as: “ABC Pty Ltd in its own capacity and as trustee for the ABC Trust”. Independent legal advice and if required, financial advice may be required where a third party exists.

Where it makes sense to do so and it adds value to the assessment, adult beneficiaries/unit holders should be guarantors.

The following guidelines are also applicable to trustees:

- Ensure that the trustee has the ability to service the loan;
- Obtain Trust Deed and refer documents to a panel solicitor to identify if trustee can provide a guarantee on behalf of trust and beneficiaries in accordance with the trust deed;
- Obtain Veda Advantage reports on the trustee and adult beneficiary(s)/unit holders(s) who are to act as guarantors. Highlight any defaults, judgements etc. (if any) and attach a full explanation;
- The Trust should have been established for at least 1 year, otherwise evidence must be provided that trustee has the experience and skill to promote the trust in its proposed business activities in the best interests of the beneficiaries;
- Have beneficiaries sign letter of acknowledgment of the loan.

13.1.14 Information about obtaining independent legal and financial advice

The advice can be given by a solicitor, accountant or financial adviser.

There is no significant degree of difficulty obtaining advice from one of these sources, although often lawyers may refuse to give financial advice. This, of course, is inconvenient to



guarantors who need to seek out someone separate to give financial advice. As financial advice is rarely requested, this is not a big problem in practice.

The following table analyses the situation in relation to legal advice, which as noted above generally will apply only in relation to guarantors.

PLACE	STATUS
NSW, ACT and VIC	Law Society of New South Wales has prescribed a standard form. Generally no problem obtaining.
QLD, NT and TAS	No prescribed form for legal advice. Generally no problem obtaining.
SA	The Law Society of South Australia recommends that practitioners do not provide legal advice certificates. It is a rather extraordinary concept that a law society should advise lawyers that they should not give legal advice, but nonetheless this is what has happened. Generally, panel lawyers will have borrowers sign a Statutory Declaration stating that they have obtained legal advice, and there are lawyers who will provide legal advice.
WA	The Law Society of Western Australia has prepared a standard legal advice certificate. Some lawyers refuse to give advice.

Independent Legal Advice

IBAL must always recommend that a prospective guarantor obtain independent legal advice.

Independent legal advice must be obtained for all approvals under Family Support **Section 3.1.5.1.**

Under code of banking requirements a guarantor is not required to obtain independent legal advice. However, IBAL, acting reasonably and in exercising the care and skill of a diligent and prudent banker:

- requires that certain guarantors obtain independent legal advice before accepting a guarantee. Such circumstances may include, by way of example, but without limitation, where a guarantor is considered vulnerable and/or at risk of significant loss should the borrower default; or
- can accept a guarantor electing not to obtain independent legal advice on a case by case basis. Such circumstances include, by way of example, but without limitation:
 - where the guarantor has a history of guarantees;
 - where a guarantor is considered financially astute and aware of their obligations in giving a guarantee;
 - where a guarantor is in a profession such as accountant, solicitor, finance, etc.
 - if the guarantor is a company or trust owned by all the borrowers; or
 - where the guarantor is considered financial astute and aware of obligations and/or obtaining a benefit from the transaction.



Financial Advice

Where the borrower or guarantor is elderly and/or in receipt of superannuation/annuities or government benefits (e.g. pension, family allowance), it is recommended they obtain independent financial advice to ensure the transaction does not adversely impact their entitlements (i.e. increased assets or income and the potential impact on means/asset testing).

13.2 Unacceptable Security

The following security types are not acceptable under this Underwriting Guideline Manual:

- Company Title (where less than 4 units/dwellings in the one development).
- Boarding house, hostel, student accommodation or university apartment.
- Brothel.
- Commercial, industrial property or similarly zoned property (Can be considered under Priority Commercial Mortgages).
- Income producing rural property (unless hobby farm).
- Nursing or retirement home.
- Property > 10ha (approx. 25 acres)/Broadacre

Note: Properties in excess of 10ha are more likely to take longer to sell, to be used to produce income from farm produce and to be subjected to the Farm Debt Mediation Act).

- Property occupied by life or protected tenant.
- Purpose built premises, restrictive or unusual usage property.
- Any serviced apartment, managed apartment or an apartment in a letting pool (including dual keyed).
- Any apartment within a development which is predominantly made up of serviced or managed apartments or part of a hotel, motel or holiday / resort complex.
- Motel conversion.
- Time share agreements.
- Management rights (including units attached to management rights of the complex).
- Property that has adverse environmental issues from past/current uses (e.g. underground storage tanks, chemical processes etc.)



- Residential property with commercial use, where significant refurbishment may be required to return the property to a standard residential dwelling.
- Commercial property with residential use.
- Moiety Title (SA)- Typically covering maisonettes or attached cottages, means that the person owns a share of the whole of the land and leases a defined portion of the land for himself or herself from the other owner or owners.
- Properties requiring mortgagee execution of an Encumbrance and Deed of Consent document.
- Purple Title (WA) - They exist where the whole property i.e. land and buildings, are owned jointly by every owner and for a mortgage to be lodged all owners must agree and execute the mortgage documentation.
- Vacant Land - stand-alone (See **Section 13.1.8**).
- Properties registered under the Federal Governments National Rental Affordability Scheme (NRAS).
- Display Homes.
- Leasehold that are not government backed.
- Residential units where living area <40 sqm.
- Developments (including new estates) which are covered by affordable housing schemes when there is a strong likelihood of having a detrimental effect on properties at resale, due to onus conditions or location.

If a panel valuer has negative comments or considers the security is located in a limited market, then the property is not a desirable security, and would require strong mitigants to proceed (e.g. Strong servicing with low LVR).

Any non-residential properties or properties situated in non-residential zoned locations (e.g. commercial, industrial etc.) are not acceptable securities for retail loans.

The following security types are generally not accepted; however, they may be considered on a case by case basis, albeit at reduced Security LVR, depending on the strength of individual loan proposals.

- Flood affected property:
 - Properties located in a 1% AEP – Annual Expedient Probability (previously 1:100 year flood zone) will be considered on a case by case basis, subject to Buildings insurance being obtained.
 - Properties located within 2% and 5% AEP (previously 1:50 and 1:20 flood zones respectively) will not be considered.



Note: Whenever information is provided with an application or valuation that indicates a property is located within a flood zone, evidence is to be sought from the Broker/Introducer/Borrower to confirm the property is acceptable in terms of this requirement.

- National trust or historic property.
- Heritage listed.
- Property that is poorly maintained or in need of significant repair.
- Property situated in unfavourable area with a limited life expectancy, poor resale prospect and/or values.
- Residential property with commercial use, where minimal refurbishment is required to return the property to a standard residential dwelling.

13.3 Concentration Limit

Under these guidelines a maximum of 5 security properties/securities can be accepted from one obligor. Priority Commercial Mortgage guidelines can accept more than 5 securities and can also accept small residential unit blocks in suburban/metropolitan locations.

Concentration limit is a form of control mechanism for the management of identified areas of risk exposures.

IBAL monitors the concentration risk of collaterals monthly.

For high density development or areas of new subdivision/ development, IBAL's preferred exposure is limited to

- 25% in any one apartment/home unit development; or
- 10% in any new cluster development/ staged land release/ subdivision.

14. POSTCODE CATEGORIES

IBAL will consider lending for residential products in any Australian postcode.

The INGD postcode listing contains Primary Postcodes with a sub section for both Exception and Non Lend Postcodes.

The Secondary Postcodes represent all remaining postcodes.

The Primary Postcodes are further classified as either Category 1, 2 and 3. These categories are used to rank various regional areas and will be used to identify any restrictions for loans with LMI approved under DUA.



The exception postcode listing covers postcodes where lending restrictions are imposed on units/apartments within that postcode for a particular reason e.g. inner city/core or fringe CBD apartments, areas where oversupply exists, areas affected by disasters etc. For this reason, they should undergo greater scrutiny at assessment and with a heightened level of review on the valuation.

Non Lend postcodes are locations where IBAL Risk Management have identified areas of concern over the location and may wish to prevent any increased exposure to the location. Any new or increased loans secured by properties in a Non Lend Postcode should be referred to IBAL Risk Management for review.

Exception and Non Lend postcodes will be determined by IBAL Risk Management and will be reviewed from time to time, with variations to be notified accordingly.

The Postcode Location list is located on the ING Intranet (Frankie) for IBAL users.

Whilst IBAL lends across all postcodes care must be taken when assessing the suitability of a security property, particularly in secondary postcode and/or where it does not meet the minimum valuation requirements.

15. MAXIMUM LVR BY SECURITY

LVR represents the loan amount as a percentage of the valuation amount. For a purchase the lower of the purchase price or valuation should be used.

Below is a summary of acceptable securities and their respective LVR.

Single Property LVR
Sydney / Melbourne (Metropolitan area Category 1 Postcodes only) - 80% <= \$3.0m - 70% > \$3.0m
Brisbane / Perth (Metropolitan area Category 1 Postcodes only) - 80% <= \$2.5m - 70% > \$2.5m
All Other Areas - 80% <= \$2.0m - 70% > \$2.0m



Security Type	Maximum LVR		
	Without LMI	With LMI (including capitalised premium)	
		Owner Occupied Securities	Investment Securities
Houses (freestanding)	80%	95%	90%
Villas/Duplexes/Townhouses (including warehouse conversions)	80%	95%	90%
Units/ Apartments			
• Living Area ≥ 40 sqm*	80%	95%	90%
• Company Title (when four or more units in development)	80%	N/A	N/A
High Risk Postcodes#	80%	Can be considered up to 90%	Can be considered up to 90%
Vacant Land Category 1 and Exception Postcodes (as top up security)	50%	N/A	N/A
Rural Residential Acreage			
Less than 2.2 ha (Approx. 5.4 acres)	80%	95%	90%
2.2 ha (Approx. 5.4 acres) to less than 5 ha (Approx.12.35 acres)	80%	90%	90%
5ha (Approx. 12.35 acres) to less than 10 ha (Approx. 24.7 acres)	70%	90%	90%
Deed of Charge and Setoff over cash deposit	100%	N/A	N/A

- Maximum LVR of 80% for increases.
- Maximum LVRs for loans with interest only repayments are detailed in Section 5.2
- LVRs above 80% are only available when purchasing owner occupied or investment security properties or simple home improvements detailed in **Section 17.7**).
- Any unit/apartment with a living area of between 40sqm and 50sqm (e.g. bachelor/bedsitter/ studio/1 bedroom) must be of good quality located in a desirable and high demand capital city metropolitan locations.
- # “High Risk Postcodes” have been identified as a greater risk of being more vulnerable to changes in economic outlook and/or property market conditions. Locations will be regularly monitored by Risk Management and identified via system decisioning tools. Securities in these locations will be limited to a maximum LVR of 80%, however, for worthwhile applicants, the mortgage insurer may consider applicants up to 90% (including any capitalised LMI premium) on a case by case basis.



16. VALUATIONS

16.1 Overview

An acceptable valuation is required in all cases to confirm the Bank's security position.

Types of Valuations

Acceptable valuations include:

Contract of Sale (Maximum LVR 80%) – should be signed and dated by the vendor. The value also must be validated with an AVM, EVR, Short form or Full valuation Refer Section 16.2

AVM (Maximum LVR 65%) – Automated Valuation Model which uses one or more mathematical techniques to provide an estimate of value of a specified property at a specified date (inclusive of a confidence score).

EVR (Maximum LVR 80%) – an abridged valuation prepared by a valuer. The valuer can complete an EVR without physically inspecting the property; by using local knowledge and statistical data. The EVR incorporates a valuer's local expertise and provides Property and Market Risk Ratings and direct sales comparison analysis including 'like properties' in addition to 'properties sold'. The valuer may need to speak with the owner or real estate agent to qualify some matters such as number of bedrooms and state of repair. The security is to be located within selected metropolitan category 1 postcodes.

Short form valuations – similar to EVRs, however involves the valuer undertaking a physical inspection of the property and usually will provide a more reliable assessment of the property value.

Full valuations – similar to the short form valuation report however more detailed in both the analysis of supporting information and the level of detail that is obtained in the report. Usually required for unique and high end properties where direct comparisons are fewer and additional investigation is usually required.

Full valuations required in all cases where the single property value is greater than \$5.0m.

Determining the type of Valuation Required

The type of valuation required is fundamentally driven by the associated risk of each application/borrower and is determined by considering a number of different factors:

- LVR;
- Loan amount;
- Security amount;
- Security location;
- Purpose of the loan;
- The source document available to support the owners estimate.



For security properties located in secondary postcode areas (refer Section 14), acceptance of these properties is subject to three comparable sales being available within the previous 6 months

Broker

Refer to the below table (Section 16.2 and Section 16.3) to determine what type of valuation is required. Where the application falls outside the parameters contained within the table a short form or full valuation will be required.

16.2 Valuations for New Securities

Various types of valuations are acceptable when taking new security.

For a purchase the lower of the purchase price or valuation must be used for LVR calculations.

To use a Contract of Sale, AVM or EVR the following requirements must be satisfied together the additional requirements detailed in Section 16.2.1 to 16.2.3.

Eligibility criteria

- Primary postcodes only (i.e. Cat 1, Cat 2 and Cat 3 only).
- Maximum of 2 interlinked security properties per loan.

Excludes

- Off the plan purchases.
- Brand new properties or properties under construction (including vacant land).
- Property purchased direct from a builder/developer.
- Must not be a “favourable” or “not at arm’s length” purchase.
- Interstate investors .i.e. where the purchasers are located in a different state to the location of the security property.
- Units with a living area less than 40 sqm.

16.2.1 Contract of Sale

In all cases the purchase price must be validated by another valuation type. The lower of the purchase price or valuation must be used for LVR calculations.

When an AVM is used it must have an acceptable “Confidence Level”. If an AVM is lower than the purchase price the AVM value can still be accepted up to 80% LVR.

Can only be used for the below maximum security values



	Accept Contract of Sale (Maximum LVR 80%)	
	House Value	Unit Value
NSW	\$1,000,000	\$750,000
VIC	\$750,000	\$600,000
WA/NT/ACT	\$600,000	\$450,000
QLD/SA	\$550,000	\$400,000
TAS	\$300,000	\$200,000
All Cat 3 Postcodes	\$300,000	\$200,000

16.2.2 AVM

Any AVM must have an acceptable “Confidence Level”.

	Maximum Security Value	Maximum LVR
NSW	\$1,500,000	65%
VIC	\$1,500,000	65%
WA/NT/ACT	\$750,000	65%
QLD/SA	\$750,000	65%
TAS	\$500,000	65%
All Cat 3 Postcodes	\$500,000	65%

16.2.3 EVR

The security is to be located within selected metropolitan category 1 postcodes.

	Maximum Security Value	Maximum LVR
NSW	\$1,500,000	80%
VIC	\$1,500,000	80%
WA/NT/ACT	\$750,000	80%
QLD/SA	\$750,000	80%
TAS	\$500,000	80%

16.2.4 Short Form and Full Valuations

These valuation types are acceptable where the proposal/scenario is not covered by others. They are also mandatory for LVRs above 80%.



16.3 Valuations for Existing Business

A previously accepted IBAL valuation can be relied upon when all of the following conditions are met. Maximum Security Value NSW/VIC \$1,500,000 WA/NT/ACT/QLD/SA \$750,000 TAS/CAT 3 \$500,000		
Previously accepted valuation type	Maximum LVR	Maximum age of valuation
AVM	0- 65%	Less than 12 months old
EVR, Short Form and Full	0-65%	Less than 36 months old
	66-80%	Less than 12 months old

Eligibility criteria

- Must be existing IBAL security and located in a Primary postcode (i.e. Cat 1, Cat 2 and Cat 3 only).
- Maximum of 2 interlocked security properties per loan.
- Any AVM must have an acceptable "Confidence Level".

Excludes

- Off the plan purchases.
- Brand new properties or properties under construction.
- Property purchased direct from a builder/developer.
- Must not be a "favourable" or "not at arm's length" purchase.
- Renovations/additions where an on completion value is required.

Short form or Full valuations required in all other cases where the proposal/scenario is not covered by the above.

16.4 Valuers' Standing Instructions

The valuer when performing a valuation will only accept valuation instructions from IBAL (including those initiated by brokers) where those instructions are in accordance with the API Residential Valuation & Security Assessment Supporting Memorandum (or such other equivalent professional standards and guidelines as detailed by IBAL) and the Valuation Minimum Standards.

The valuer will only accept Instructions to perform a valuation from IBAL when the valuer has local knowledge and competence in the geographical area of the property being valued.

The purpose of each valuation is to determine the current market value and the suitability of the property for mortgage security purpose.

The valuation is made on a fee simple in possession and unencumbered basis (unless otherwise stated) subject to any existing or agreed tenancies.



Valuations are ordered via VMS or Valex to ensure requests are outsourced on a random basis to appropriate valuers to avoid adverse selection or collaboration.

Any other matters not mentioned below that may affect the value, leasing or sale of the property, or affect its value to IBAL as security, must be brought to the attention of IBAL.

The valuation report must be signed and dated by the valuer who undertook the inspection / valuation. This valuer must be authorised by IBAL and must be a registered valuer. The valuer acknowledges that it will be responsible for ensuring all agreed standards are maintained by its employees, agents and subcontractors conducting valuations on behalf of the principal. It also acknowledges that its professional indemnity extends to all activities performed by its employees, agents and subcontractors.

The valuer acknowledges that the valuation report will be relied upon in deciding to approve a loan facility for which the valuation was sought.

16.5 Valuers

All valuers are to be accredited by IBAL. Requests for valuation will be forwarded to a panel of accredited valuers. Upon a valuer's inspection and assessment of a particular property, a formal report will be sent back to the requestor.

All documentation prepared by or on behalf of the valuer in the course of providing the Services must:

(a) be prepared by valuers that are:

(i) current financial members of the Australian Property Institute (API) or other recognised valuation industry body as detailed or notified by IBAL;

(ii) registered or licensed in the state or territory in which the relevant property is located and be one of the following classifications of API members (or such equivalent classifications in any other recognised valuation industry body, as detailed or notified by IBAL) and hold Certified Practising Valuer (CPV) status:

- Associate (AAPI)
- Fellow (FAPI)
- Life Fellow (LFAPI)

(iii) where the property is located in a state or territory in which a valuer is required by law to be licensed, the valuation must be by a licensed valuer.

(iv) 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.

(v) where valuation reports signed by PAAPI (Provisional Members) and API members with less than 2 years full time post graduate valuation experience are only



acceptable when countersigned by a valuer holding one of the above classifications (or equivalents).

(vi) residential property valuations will not be undertaken by a SAPI (Student) member of the API (or equivalent).

(b) be checked and approved for accuracy and compliance with this agreement by an authorised officer of the Valuer having regard to the requirements specified in this agreement and any instructions from IBAL.”

Note: LVR represents the loan amount as a percentage of the valuation amount. For a purchase the lower of the purchase price or valuation must be used.

16.5.1 Valuation Appeals-Short Form / Full Valuations (Managed by Operations)

IBAL underwriting guidelines prohibit the disputing of a valuation before a full application is received or purely on the basis that the valuer was not coming up with a valuation figure to the expectation of an introducer/originator. However, in certain circumstances it is permissible to appeal a valuation report.

16.5.1.1 Valuation Appeals Process

- All appeals are to be presented to the Valuation Team (valuations.rmg@ingdirect.com.au) who will then review the position and refer to valuers in need.
- Only variances greater than **10%** from purchase price or customer's estimated market value will be investigated under this process. Where the variation is less than 10% the valuation team will further investigate the valuation only under exceptional circumstances. These will be assessed on a case by case basis.
- If Borrowers/Brokers or Business Development Managers request that we review a valuation report, the Valuation Team requires the following information (in writing at all times):
- Full details of additional sales evidence (minimum 3 sales), which includes:
 - Date sold (Must be a confirmed sale and no more than 6 months old);
 - Address;
 - Amount sold;
 - Size and details of dwelling/land;
 - Details of selling agent along with phone numbers.
- Unless the above information is provided the valuation appeal cannot be progressed further as there is insufficient information to present to the valuer.



16.5.1.2 Expected Turnaround Times for Valuation Appeals

Valuers are required to formally review all comparable sales provided and in some instances re-visit properties to ensure comparability.

A 2 day turnaround time has been set from the date the Valuation Team requests the valuer to review additional sales information.

16.6 General Insurance

Borrowers are required to maintain adequate property/fire insurance over security properties held by IBAL for the term of their loan with IBAL interest as mortgagee noted on the policy (Noting on policy not required for properties under Strata Title). Any such insurance policy must be underwritten by an insurer that APRA has authorised to operate in Australia (refer www.apra.gov.au).

A copy of the insurance policy or certificate of currency is to be held as evidence of building insurance. This is to be obtained prior to settlement or before funds are advanced, when the property is first accepted as security and when variations are assessed.

The minimum insurance value required for freestanding properties (i.e. properties not under Strata Title) is the Insurance Assessment value stated on the Full or Short Form Valuation. When those valuation types are not held it is to be 50% of the security value used for LVR purposes.

For properties over \$15 million in value evidence of insurance is to be obtained on an annual basis.

Also for any facilities regulated by the 2019 Banking Code where IBAL has security over a borrower's primary place of residence or a borrowers residential investment property, IBAL must remind borrowers of their obligation to insure the property at least once a year. The reminder should be in writing and should include:

- a statement that the borrower should check with their insurer in relation to their level of cover; and
- a reference to the Australian Securities and Investments Commission's MoneySmart website moneysmart.gov.au for information on property insurance.

16.7 Variations between Purchase Price and Valuation

If the formal valuation amount is less than the purchase price of the subject property by 10% or more, the borrower needs to be promptly informed of the situation once identified and given the option to either proceed or withdraw the loan application and given the opportunity to seek independent advice before accepting IBAL loan offer.

Variations of this nature could be the result of "two tier marketing", which is the practise of having two prices or tiers in a real estate market, one for locals who know the market values in the area, and one price for other buyers, often from interstate or overseas, who are not aware of local market prices.



Where a valuation indicates two tier marketing techniques may be in use, additional care is to be taken to ensure the current market value is used in calculating the applicable LVR.

Clause to be inserted in the loan approval and as a special condition in the letter of offer.

“You acknowledge that the property at [address] has been valued at significantly less than the purchase price which we understand is \$xxx,xxx. This valuation is for our internal use, and you are not entitled to rely on it. In the light of this information, we strongly recommend that you make independent enquiries as to the value of the property. It is common for valuers to value slightly below purchase price, and of course, the assessment by our valuer may have been unusually conservative or based on incomplete information. This underlines the importance of you making your own enquiries. By proceeding to drawdown the loan, you acknowledge you are aware of this issue and wish to borrow the loan despite this fact.”

16.8 Second Opinion Valuation

- Not permitted - under no circumstances should a valuation request be withdrawn from a valuer purely on the basis that the valuer was not coming up with a valuation figure to the expectation of an introducer/originator.
- In the event where an introducer seeks a second valuation for legitimate reasons, details on comparable sales should be provided to IBAL which will then be passed on to panel valuers for their comments. If the valuer feels that there is no ground in varying the original valuation, the application needs to be referred to a team leader for further assessment.

17. VARIATIONS

Note: Variations to existing borrowings using existing security are still allowed for loans to non individuals (e.g. trusts and companies)

17.1 Partial Release

Servicing

Serviceability is not required where LVR remains the same or decreases and is within product parameters.

Note: Assessment of servicing should be considered where:

- Full sale proceeds are not being obtained.
- Property being released is deriving rental return.
- Doubt exists as to the validity of the transaction (E.g. non arm's length sales, sales not involving a Real Estate Agent).



- Where arrears history is evident (greater than 1 payment in arrears (greater than 30 days) in the last 6 months) or where there is evidence that the customer has been in hardship in the previous 12 months (Care to be taken to ensure borrowers are financially stable).

Valuations

Non LMI Loans

Re-valuation on remaining security is required where:

- LVR increases and is outside product parameters or;
- We are not obtaining full net sale proceeds; or
- Doubt exists as to the validity of the transaction (E.g. non arm's length sales, sales not involving a Real Estate Agent).

LMI Loans

Valuation required on remaining security and LVR must remain within product parameters.

17.2 Switches

It is important to consider whether the proposed switch will impact or change a borrower's repayment arrangement. Therefore, in some circumstances it is appropriate that we confirm a borrower's ability to maintain P&I payments on an ongoing basis.

Switches that can be considered without the need for a servicing assessment:

- Switching between product types:
 - Orange Advantage to Mortgage Simplifier.
 - Mortgages Simplifier to Orange Advantage.
 - Mortgage Simplifier/ Orange Advantage, from variable rate to a fixed Rate.
 - Interest only to principle & interest repayments.
- Switches that will require a servicing assessment:
 - Mortgage Simplifier/ Orange Advantage to Line of Credit.
 - Line of Credit to Mortgage Simplifier/ Orange Advantage.
 - Requests for interest only repayments.
 - Extension of interest only repayments.

The capacity to demonstrate affordability on a principle & interest basis and over the residual loan term (remaining term less the interest only period equals the residual loan term). If servicing cannot be demonstrated, the switch request is to be declined



Note:

- Maximum 80% LVR for interest only repayments.
- Maximum 5 years interest only period for the life of all owner occupied loans.

Loans approved under Family Support must not be on interest only repayments (As per **Section 3.1.5**).

17.3 Reduced Equity Product (REP) Loans

While this product has been removed from sale, the following variations and/or increases for existing accounts can still be approved under these guidelines (subject to current LVR restrictions).

Acceptable

- Increase of existing loans for non-structural home improvements (Refer note below).
- Substitution of security with no change to borrowers and no increase.
- Substitution of security with an increase; not above the original REP Loan amount.
- Variations/ increases of REP loans that satisfy normal policy and result in a maximum LVR of 80%.

Unacceptable (require a new full loan approval under LMI)

- Add an additional borrower.
- Removal of borrower.
- Substitution of security with an increase; above the original REP Loan amount.

Note: Increases to existing REP loans can only be considered for home improvements where there is no reliance on the on completion valuation and satisfactory evidence of the purpose of funds are held on file (Refer Section 17.7.1).

In addition to the normal requirements of a variation, (e.g. increase), applications involving existing REP Loans must also satisfy the below requirements:

- The maximum loan amount for REP is \$600,000 plus any capitalised fee.
- REP loans must be on a principal and interest basis and capped at 90% (including capitalised fee).
- Debt consolidation and cash out (equity release) is not allowed.
- Maximum LVR is 90% for substitutions including any capitalised fee.
- No evidence of adverse credit, as defined under Section 12



- No third party security, except where debtors are spouse /de-facto (only) and the mortgagor is one of the debtors.
- No second mortgages permitted.
- Any cross collateralisation of any existing securities held by IBAL is not permitted with any new approval under this policy.

Acceptable Security

- Postcode Categories 1, 2 and Exception.
- Rural Residential acreage up to 2.2ha.
- Units/Apartments that are a minimum of 40 sqm.
- Valuations with a Risk Rating of 4 or 5 can be considered on a case by case basis. Security substitution is allowed subject to the new security being comparable quality with regard to sale ability, location and condition.

Any coinciding increase in amount or LVR will need to be considered as above and appropriate fee (new or top up) to be charged.

17.4 Substitution of Security

Full assessment is not required if:

- No increase in LVR (normal valuation requirements to apply);
- No significant change in locality;
- No change of employer for applicant;
- No change in sources of income that were used in last approval .i.e. change or removal of investment property income;
- New security meets normal policy.

A Full Assessment is to be considered where new security property is not in a primary postcode.

17.5 Consents

We can approve consents to second mortgages to other lenders and plans of sub-division or strata title of the Bank's security for loans/exposures.

17.5.1 Consent to a Second Mortgage

Consent by IBAL to a second mortgage by another financier/lender is permissible subject to obtaining the same approval as is required for an amended transaction.



Considerations in consenting to a second mortgage are:

- Should be in an open form without restriction to IBAL first mortgage;
- Impact of second mortgage on existing facility;
- If requested to restrict IBAL first mortgage, care should be taken to ensure that the value of the security will not be eroded;
- Retain priority for a minimum of principal and interest and interest outstanding at any time plus any recovery costs (should include legal fees, disbursements and costs that may be incurred in the sale of any security);
- Refer to panel solicitors for the preparation of the priority agreement.

17.5.2 Other Consents

Consents to sub-divisions, strata plans, etc. must have been signed off by the IBAL's solicitors as being in order for registration.

Due consideration needs to be given to obtaining a new valuation(s), in particular for sub-divisions and new strata plans, to ensure that after the transaction is complete the bank's security is not eroded and ensure it remains within normal underwriting guidelines

17.6 Increases

This underwriting guideline is to apply in circumstances where an existing customer requests an increase or new facility to any existing facility (including REP loans).

Increases to existing low doc loans can only be considered on a full financial disclosed basis (i.e. new financial and servicing assessment required).

The following conditions **must** be satisfied:

General

- A signed application form must be received from all borrowers/guarantors.
- The new loan amount must continue to meet IBAL serviceability requirements (Section 11).
- Income/employment details are to be verified by either sighting:
 - one payslip for base income (less than one month old); three months bank statements showing a regular salary credit, with the name of the employer;
 - if the above income is not sufficient or cannot be substantiated, refer to Section 9 Income Verification.
- Security property remains within maximum Security LVR.



- Maximum LVR (including any capitalised LMI premium) to apply to increases are as follows
 - Maximum 90% for simple home improvements where an “as is” valuation is relied upon;
 - 80% against owner occupied or investment securities for equity release, cash out, refinance and debt consolidation.
- For loan increase of more than \$50,000, a new title search is to be performed and is to reveal no subsequent interests noted on the title.

Valuations

Refer to **Section 16.1.2**.

Account Conduct

Refer to Unacceptable and Adverse Credit History in Section 12.

Credit Checks (Veda Advantage)

A Credit Check Report is mandatory.

17.6.1 Non Structural Improvements

With no option to provide construction loans with progress payments, home improvements can still be considered but must be for "non-structural" purposes (e.g. Kitchen / Bathroom upgrades etc). The additional requirements are:

- Maximum amount \$50,000;
- Maximum LVR 90% ;
- Single drawdown (but possibly multiple cheques);
- Should borrower want separate drawdowns to accommodate various works being undertaken then separate increase requests may need to be considered.

Depending on the situation, there are two options available when obtaining a valuation:

1. 'As Is' Valuation

- Reliance is on a current valuation prior to the proposed non structural improvements (as is value).
- Supporting evidence (e.g. invoice or quotes) must be provided to confirm that funds will be used for property improvements

2. 'On Completion' Valuation



- Upfront valuation with specific quotes/contract/tender to be provided and commented on by valuer in the valuation report.
- On settlement bank cheques are to be made payable in accordance with the specific quotes/contracts/tenders used in completing the valuation report and provided to the borrower who is then responsible for control of payment to contractor on completion of works.

17.7 Increase in Conjunction with Other Variations

Any request which includes an increase and other variation must satisfy the above eligibility criteria in conjunction with the requirements associated with the other variation (e.g. a substitution and increase request must satisfy both the requirements of the substitution and the increase).

