




## Credit Policy

### Eligible Income

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#### Gross Rental Income

##### Definition

Gross rental income refers to the amount of rent received by the customer prior to the deduction of real estate agent's commission, other expenses and income tax, etc. Gross rental income only applies to self-contained dwellings. Room rental and board are unacceptable. This includes rental income from NDIS properties.

If evidence is held on file and is from different sources at the time of verification of the application (e.g. valuation is held and shows a lower figure than the rental appraisal provided), the lowest amount must be used. This excludes dated information from tax returns.

##### Holiday Rental Income

Defined as rental that is either varied or inconsistent in amount and / or regularity i.e. dependent on or determined by the time of year. Example - a holiday unit which would receive 'high' rental income during peak times (Christmas, Easter) but potentially can also receive minimal or no rental income during the quieter periods.

##### National Rental Affordability Scheme (NRAS) Income

The National Rental Affordability Scheme (NRAS) is a Federal Government initiative aimed at providing more affordable rental accommodation to lower income individuals and families. As a rule NRAS rental income is usually a set figure 20 to 30% below the normal market rental.

Rental income received under NRAS is treated differently to that of regular gross rental income. The figure is set at the time of the purchase and increases in line with the national average. Subsequently every 3 or so years the property is appraised by an independent valuer to review and resets the rent to the current market.

##### Rental Yield

Rental Yield is a representation of the total rental income received as a percentage of the Purchase price/Owners estimate of the property.

##### Rental Expenses

Where a customer receives rental income and this is used for servicing the amount of rental expenses required to maintain the property must also be determined. Refer: [Verifying Transaction Account/s, Account Conduct and Commitments / Expenditure](#)

Rental expenses are not to be included as monthly living expenses and are to be captured at an individual property level.

##### Note:

The amount of rental income used in servicing will be 90% of the gross rental income less rental expenses.

The rental expenses applied will be the higher of the customer declared/verified expenses or 10% of the gross rental income amount. This will be automatically calculated by the system.

Example:

Gross Rental Income \$2000 x 90% (10% shading) = \$1800

Less Rental expenses \$2000 x 10% or higher of customer declared/verified expenses = minimum \$200.

\$1800 - \$200 = \$1600 used for servicing.

Restrictions	Verification	% Used for Servicing
<p>A maximum gross rental income yield of 7% is acceptable for servicing (applicable to residential property only). If the calculated rental yield is greater than 7% p.a. then the gross rental income is to be reduced to reflect a maximum yield of 7% p.a.</p> <p>If a bridging loan is involved, rental income can be included in the servicing exercise where a formal lease agreement is in place at the time of applying for the bridging loan and the rental income will continue during the bridging period. Consideration must be given to the remaining tenancy period compared to the bridging loan period when</p>	<p><b>Gross rental income</b></p> <p>Use one of the following:</p> <ul style="list-style-type: none"> <li>Statement from a managing agent less than six weeks old immediately preceding the date of application. Where the letter states a range for the proposed rental income then the lower figure is to be adopted</li> <li>Current Lease agreement<sup>1</sup> (which may be included as part of a contract of sale)</li> <li>Most recent external valuation report less than 90 days old</li> <li>Most recent taxation returns where rental</li> </ul>	<p>90% of the gross rental income less rental expenses</p> <p>The % used for servicing can vary depending on the circumstances of the loan. Refer to the <a href="#">Postcode Lookup Tool</a> for applicable rental income policy.</p>

including rental during bridging on the property to be sold.

properties are already owned by the customer

(tax return to be from the most recent financial year).

- ▶ Rental appraisal from a real estate agent only if the property has not been tenanted or is currently untenanted

#### **Holiday rental income**

Use one of the following:

- ▶ Most recent taxation return from the most recent financial year
- ▶ Most recent external valuation report less than 90 days old (i.e. estimate market rental as if rented on a normal basis)

#### **Notes:**

- ▶ Proposed holiday rental income is to be confirmed via most recent external valuation report less than 90 days old (i.e. estimate market rental as if rented on a normal basis)

#### **NRAS rental income**

Use one of the following options:

##### **Existing rental income-**

1. NRAS Consortium Contract
2. Rental statement from the managing agent less than six weeks old immediately preceding the date of application.
3. Most recent taxation returns where rental properties are already owned by the customer (tax return to be from the most recent financial year)

##### **Proposed rental income (newly constructed, being constructed, off the plan)-**

1. NRAS Consortium Contract
2. Rental appraisal letter less than six weeks old immediately preceding the date of application. Where the letter states a range for the proposed rental income then the lower figure is to be adopted
3. Rental stated on independent valuation (conducted on behalf of the NRAS Consortium) and enclosed as part of the Contract of Sale
4. External valuation report (i.e. customer ordered) obtained for CBA less than 90 days old

#### **Note:**

Calculation

Existing Rental Income - adopt the actual rental income amount as stated on the NRAS Consortium Contract, Rental statement or Tax returns.

Proposed Rental Income - If a rental appraisal letter or valuation is provided, deduct 10% off the stated Market Value rental. This reduced rental amount is the verified amount which is to be used for servicing.

#### **Rental expenses**

Verification is not required unless:

- ▶ Income from 4 or more investment properties owned by the customer is used in the application for servicing.

Where verification is required, you must use one of the following options for each property:

1. Most recent taxation return showing actual expenses, or
2. Profit and loss statement.

Where verification is not required but you have

been provided with documents that do not align to the expenses declared by the customer then the highest figure must be used (e.g. tax returns are held on file and expenses show a higher figure than the customer declared expenses).

Rental expenses for new investment properties can be estimated regardless of the number of rental properties owned (including properties that have been held for less than 12 months or the tax return does not show a full year of expenses).

#### Comments

- ▶ The investment property asset from which the rental income is earned and any related debt (e.g. investment home loan) are to be detailed on the assets or security section in the application.
- ▶ The gross rental income and associated rental expenses (property expenses) must be entered against the appropriate property.
- ▶ You must not record this amount separately as other income in the income field of the application.
- ▶ Rental income may be discounted further or be excluded from servicing by the application systems based on application characteristics. Always refer to the [Postcode Lookup Tool](#) for specific rental income policy.
- ▶ Negative rental income may be applied to the application where rental expenses exceeds the shaded rental income amount.
- ▶ For applications where the customer wishes to claim the First Home Owner Grant the proposed rental income and associated tax deductibility (negative gearing) relating to the purchase property is to be excluded from servicing calculations. However where appropriate you may include the rental income and associated negative gearing for an existing investment property (Refer to the relevant requirements for each State - [FHOGS](#)).
- ▶ Rental income for a serviced apartment is to be confirmed to the amount stated on the external valuation report.
- ▶ The count of investment properties for rental expense verification includes any new investment property where proposed rental income is included.
- ▶ Where rental income is combined to enter against one property address (e.g. rental income received from multiple dwellings on one title), rental expenses are to be combined and treated as one investment property in the count of properties.
- ▶ Ownership can involve properties owned with other individuals or for non-individual properties the ownership via shareholding should be used to determine total property ownership.
- ▶ Example: An applicant owns 2 properties in their name solely, one joint with their spouse and one in a non-trading trust name where they have 50% shareholding. Based on this example they have ownership in 4 properties and rental expense verification would be required.
- ▶ <sup>1</sup>Where the most current lease agreement has expired but a continuation of tenancy clause is evident, you can verify the rental income using the expired lease agreement and a recent month's rental credit to the customer's account. **Note:** If there is a variance between the two verification documents, use the lower amount.

#### Calculating Rental Yield

Gross rental income (per annum) / Property value x 100

#### Example

Owners Estimate Value (OEV)/Contract of Sale is \$500,000

7% rental yield would be \$35,000 per annum. On a weekly basis, this equates to approximately \$674 per week.

If the actual rental received is greater than \$674 per week, then the rental needs to be reduced down to the 7% cap for the servicing assessment.

If the actual rental received is \$674 or lower per week, then no adjustment is required.