



Credit Policy

Eligible Income

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Self-Employed

Self-employed customers derive their income from their own business.

They earn income and pay out business expenses during the year, with the difference between their income and expenses being their profit or loss.

At the end of the financial year, self-employed customers must account for all their income by completing financial statements/tax returns which are lodged with the taxation office.

The assessing officer reserves the right to seek additional information if considered necessary.

A minimum of 2 years trading history must be confirmed. When adopting the specialised professions policy, a trading period of less than 2 years can be accepted where at least 12 months experience in the same industry can be evidenced. Individual circumstances can be considered by a credit assessor if the application is deemed creditworthy.

'Full verification' and/or 'Simple verification' is not required for salaried partners in Law, Accounting and/or Consulting Firms. Refer to the relevant policy in '[PAYG Law, Accounting and/or Consulting Firm Partner Income](#)'.

'Full verification' must be used for applications where there is CommBank commercial exposure and the application requires assessment by the Business Credit team.

You are not required to verify/capture self-employed income where there is no reliance on salary and/or profits from the customer's business or company. However you will need to confirm and include in the application comments that the business, from which the self-employed income is derived, is trading profitably. For sole trader and partnerships only, you must ensure business liabilities have also been included for servicing. For companies, you are not required to include business liabilities for servicing.

Low documentation loans are quarantined and are no longer available.

Capture and identification of self-employed customers

- ▶ Check your customer's profile to confirm they have a self-employed employment type recorded.

| If your customer is... | Then... |
|---|---|
| ▶ Less than a 25% shareholder and profits from company aren't required | <ul style="list-style-type: none"> ▶ Update your customer's employment type to PAYG, and follow the PAYG Salary / Wages requirements in the CommBroker-Credit Policy Eligible Income PAYG categories. ▶ End of procedure. |
| ▶ Less than a 25% shareholder and profits from company are required | <ul style="list-style-type: none"> ▶ Update your customer's employment type to Self Employed with the name of their company and PAYG employment. ▶ Note: Income from company profits can only be used where they can evidence they have taken their share of the profits in the last 2 years, as evidenced in their last 2 year's individual tax returns. |
| ▶ A 25% or more shareholder | ▶ Update your customer's employment type to Self Employed with the name of their company, and PAYG employment. |

| Verification Method | Documentation requirements | Additional requirements |
|--------------------------|---|---|
| Full Verification | Full extraction of financial information for Sole Proprietor evidenced and supported by: <ul style="list-style-type: none"> ▶ Personal tax returns from the two most recent financial years; and ▶ Most recent Notice of Assessment (NOA) for individuals OR letter from accountant to confirm that tax returns are final and have been lodged with ATO; and ▶ Where depreciation schedules are not provided, all depreciation will be treated as a non-recurring expense. Two year's depreciation schedules are required where depreciation is required to be treated as a tax free add back for servicing purposes. | <ul style="list-style-type: none"> ▶ The income figure used for servicing will be: <ul style="list-style-type: none"> ▶ The most recent financial year's figures where the most recent financial year is within +/-20% of the previous financial year OR the lower of: ▶ The average of the two years or the most recent year. ▶ Where there is a material variance (greater than +/- 20%) between the two years displayed on the Profit and Loss statement, appropriate comments on the business' performance must be provided. <p>Note: For Sole Proprietors who do not complete financial statements, two years tax returns will be required to determine any material variance.</p> |
| | Full extraction of financial information for Partnership, Company or Trust evidenced and supported by: <ul style="list-style-type: none"> ▶ Personal tax returns from the most recent financial year; and ▶ Most recent Notice of Assessment (NOA) for individuals OR letter from accountant to confirm that tax returns are final and have been lodged with ATO; and ▶ Business Tax Returns from the most recent year; and ▶ Accountant prepared business financial statements that show the profit and loss and balance sheet information from the most recent financial year and the one | |

preceding that

- ▶ Where depreciation schedules are not provided, all depreciation will be treated as a non-recurring expense. Two year's depreciation schedules are required where depreciation is required to be treated as a tax free add back for servicing purposes.

Process

Full Verification

| Step 1 | <p>Enter the business income (including profit/loss) as per the self-employed calculator.</p> <p>Note:</p> <ul style="list-style-type: none"> ▶ When entering the self-employed income, you will need to input the income details from both years into the corresponding self-employed fields to ensure the correct income average is calculated. ▶ When entering income from a Company, you will need to enter the applicant's percentage of ownership, the Company's annual Loan Repayments and Salary/Director's fees. ▶ For trust applications, where the net profit/loss has been fully distributed the amount is to be captured as \$0 | | | | | | | | |
|--|--|-------|---------|-----------------------|-------------------------|--|---|--|---|
| Step 2 | <p>Enter any of the below acceptable addbacks (only if required for servicing):</p> <ul style="list-style-type: none"> ▶ Interest expense - Where the interest expense is to continue, the related commitment must be included in servicing ▶ Depreciation expense – The write down of assets used in producing income <p>General depreciation is normally accounted for over a number of years and should be added back as a depreciation expense. Where the full depreciation is written off in the first year - under either 'Simplified Depreciation' or 'Instant Write Off' the addback should be included as a Non-Recurring Expense. (All depreciation will be added as non-recurring expenses. In order to have general depreciation expenses treated as a tax-free add back, two years depreciation schedules will need to be provided).</p> <ul style="list-style-type: none"> ▶ Amortisation - The write down of intangible assets ▶ Lease/Hire Purchase - Where the lease/hire purchase is to continue, the related commitment must be included in servicing ▶ Non-recurring expenses - Full details of the non-recurring expenses are necessary to justify why it should be added back ▶ Non-recurring income (deduction) - Details of the non-recurring income must be obtained ▶ Superannuation* – The amount paid in excess of the compulsory superannuation contribution set by the ATO <p>* Superannuation is to be entered into the 'Extra Super Contributions' field.</p> | | | | | | | | |
| Step 3 | <p>For applicants who are sole traders:</p> <ul style="list-style-type: none"> ▶ Broker must ensure that all personal and business commitments are entered into the applicant's individual balance sheet. <p>For applicants who earn their income from a partnership:</p> <ul style="list-style-type: none"> ▶ The system will automatically distribute addbacks as per policy and percentage of ownership. ▶ Broker must ensure that all personal and business commitments are entered into the applicant's individual balance sheet. <p>For applicants who earn their income from company:</p> <ul style="list-style-type: none"> ▶ The system will automatically distribute addbacks as per policy and percentage of ownership. ▶ The system will automatically distribute any remaining profits after annual Company Loan Repayments and Salary/Directors fees have been deducted according to percentage of ownership. ▶ Brokers must ensure that all business commitments are entered in the income Company Loan Repayments and not the applicant's individual balance sheet. <p>NOTE: Whenever you are entering the most recent financial year (MRFY) and the previous financial year (PFY) into the two columns:</p> <p>Where there is an upward trend of up to 120% between the MRFY and the PFY, servicing will be assessed using the MRFY figures in isolation.</p> <p>For all other scenarios, servicing will be assessed using the lower of the average of the two years or the most recent year.</p> | | | | | | | | |
| Step 4 | <table border="1"> <thead> <tr> <th>If...</th><th>Then...</th></tr> </thead> <tbody> <tr> <td>Servicing is achieved</td><td>End of procedure</td></tr> <tr> <td>MRFY is greater than +20% of the PFY and the MRFY is the more accurate reflection of the business' performance</td><td> <ul style="list-style-type: none"> ▶ Provide commentary to explain the variance ▶ Provide supporting documents such as 6 months BAS, 6 months bank statements or interim financials End of procedure </td></tr> <tr> <td>You want to use a self-employed income verification method that is not within policy e.g. trading for less than 2 years.</td><td>See the Non-standard self-employed income verification scenarios (outside of policy) at the bottom of this page.</td></tr> </tbody> </table> <p>Note: You can use the Serviceability calculator to confirm the annual growth rate once you've entered the two years financials into both columns and clicking the 'NMS' link in the top left corner to open the policy metrics screen and navigating to the 'Annual Growth Rate' section.</p> | If... | Then... | Servicing is achieved | End of procedure | MRFY is greater than +20% of the PFY and the MRFY is the more accurate reflection of the business' performance | <ul style="list-style-type: none"> ▶ Provide commentary to explain the variance ▶ Provide supporting documents such as 6 months BAS, 6 months bank statements or interim financials End of procedure | You want to use a self-employed income verification method that is not within policy e.g. trading for less than 2 years. | See the Non-standard self-employed income verification scenarios (outside of policy) at the bottom of this page. |
| If... | Then... | | | | | | | | |
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| You want to use a self-employed income verification method that is not within policy e.g. trading for less than 2 years. | See the Non-standard self-employed income verification scenarios (outside of policy) at the bottom of this page. | | | | | | | | |

Calculating Annual Company Loan Repayments*

The following guidance is for calculating annual Company Loan Repayments only refer [Company Loan Repayment Calculator](#).

The below table and guidance should not be used for any other purpose.

Only commitments in the company's name should be included in this field. Commitments in the applicant's name or business (i.e. sole trader or partnership) should be included in the applicant's personal balance sheet.

should be included in the applicant's personal balance.

For business commitments held in the applicant's name or where they are a sole trader or in a partnership, refer to [Calculating Product Commitments](#).

| Facility Type | Calculation |
|---|---|
| Term Loans without an IO period (e.g. fixed or variable rate term loan, Business Loan/Home Loan) | Actual repayment including monthly fees |
| Term Loans with an IO period (e.g. home loans and investment home loans) | Calculate the total loan amount on the actual P&I interest rate over the remaining P&I loan term. |
| Commercial revolving credit facility (e.g. Business Overdraft, IO only facilities, balloon/residual payments) | Amortise the limit at the actual interest rate over a notional 15 year term. |
| Credit Cards | Multiply the limit by 2.5% (minimum \$25 per month) |
| Margin loans | Excluded from serviceability calculations |
| Foreign currency loans | All actual overseas loan repayments converted into AUD. |
| Equipment finance, hire purchase, lease, etc. | Actual repayment as declared by the customer including monthly fees |
| Commercial bill | Amortise the loan amount at the actual interest rate over a 15 year term |

Evidence required:

For all commitments, evidence could include (but is not limited to) one of the following:

- ▶ For all business facilities:
 - ▶ statement with most recent repayments
 - ▶ loan contract evidencing repayments
 - ▶ balance sheet evidencing balance reducing over 2 years (e.g. balance year 1 = \$100,000 and balance year 2 = \$80,000 therefore annual repayments on loan = \$20,000)
 - ▶ internet printout from OFI institution showing repayment

For facilities where amortisation is based on actual interest evidence must include interest rate of the product.

Notes

Entering multiple self-employed customers

- ▶ Where your customer has multiple self-employed income sources please ensure you:
 - ▶ Provide comments detailing how income should be captured for each self-employed income source.

You should capture and record each employment type with the applicable business name in ApplyOnline and CommApply.

Non-standard self-employed income verification scenarios (outside of policy).

Non-standard verification scenarios can be considered.

In addition to the standard documents required under the current self-employed full verification method, you must also provide:

- ▶ Mitigating comments to consider your non-standard verification method e.g. provide an overall history of the business and the reasons for the income variance.
- ▶ Additional documentary evidence to support your request. This may include (but is not limited to), Accountant prepared interims, Business Activity Statements (BAS), Business Transaction Statements (BTA), historical PAYG Income (with Individual Tax Returns).
- ▶ For common scenarios where one year's financials in isolation can be considered, refer to [Quick reference guide: Non-standard self-employed income scenarios](#) or the Uplift to Self Employed Income Policy Training Guide.

Note:

- ▶ Non-standard verification scenarios (outside of policy) will be considered by Credit.
- ▶ For a faster turnaround time, ensure you satisfy all the above requirements. This will make it easier for Credit to consider your request and make a decision on the first submission.

Definition of "Most Recent Financials"

The definition of "most recent financials" (MRF) revolves around a defined cut-off date. The date of the application in relation to the cut-off date determines which financial year is considered the MRF for the serviceability assessment. The methodology is:

- ▶ If the application date is before the cut-off date, MRF is two tax financial years' previous
- ▶ If the application date is after the cut-off date, MRF is the most recently finished tax financial year

For example, if the relevant cut-off date is 30 April and the application is submitted on 28 April 2024, the MRF is the financial year ending 30 June 2022. If the application is submitted on 2 May 2024, the MRF is the financial year ending 30 June 2023.

The cut-off date for customers satisfying all of the following criteria is 30 June:

- ▶ The business / company has been trading for at least 3 years; and
- ▶ They have an existing home loan, business loan or business transaction account with CommBank or Bankwest that has been open for at least 6 months; and
- ▶ They have had no defaults on their CommBank or Bankwest facilities, nor dishonours or overdrafts on their business transaction accounts, for at least 6 months.

For all other customers, the cut-off date is 28 February.

Miscellaneous notes:

Where the customer is a director / shareholder in a company the loan commitments for the company do not need to be included in the applicant's individual

Where the customer is a director / shareholder in a company the loan commitments for the company do not need to be included in the applicant's individual

balance sheet of the Home Loan application.

Where the customer is a sole proprietor or in a partnership the loan commitments for the business must be included in the applicant's individual balance sheet of the Home Loan application.

Where a customer has multiple self-employed income sources you will have to verify the income using either all simple or all full verification, you cannot use a combination of the two methods.

'Full verification' must be used for applications where there is CommBank commercial exposure and the application requires assessment by the Business Credit team.