Mortgage Lending Procedure

BROKER VERSION 5.1

(Effective date 9th November 2020)
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1. Principles

This Procedure supports the Mortgage Lending Standard.

Below is an excerpt from the Mortgage Lending Standard to re-emphasise our commitment to Responsible Lending:

**MSB are committed to**

- Lending in a responsible manner in compliance with the legislation and intent of Responsible Lending
- Adhering to a strict, detailed and sensible lending process which includes the use of credit scoring, affordability verification, Equifax checks and the use of Comprehensive Credit Reporting where available to make full assessment of a person’s capacity to repay, and ensure compliance with other responsible lending legislation
- Allocating Delegated Lending Authorities (DLA's) based on skills and experience
- Helping our customers stay informed by providing them with the information they need to be confident when making financial decisions
- Under the AML/CTF Act, MSB will ensure it meets its obligations based on the assessment of risk on whether providing finance to a customer may facilitate money laundering or terrorism financing;
- Under the Privacy Act, MSB will not collect personal information (other than sensitive information) unless the information is reasonably necessary for use in the assessment of provision of finance; and
- Under the AML/CTF Act, MSB will not collect personal information unless the information is reasonably necessary for us in the assessment of provision of finance
- MSB will ensure we handle all personal information collected in line with our obligations under the Privacy Act

2. Related Regulation

MSB adhere to a number of regulations within the mortgage lending process. The following regulations are referenced in the mortgage lending process:

- Anti-Money Laundering/Counter Terrorism Financing Act (AML/CTF) 2006
- The Australian Consumer Law and The ASIC Act 2001
- Financial Services Reform Act (FSRA)
### 3. Loan Assessment

#### 3.1 General Requirements

In the assessment of a loan application, be it for a new loan or an increase in existing facilities, the assessment will be undertaken in a diligent and prudent manner giving consideration to appropriate regulatory guidelines, including responsible lending requirements. Consideration must be given to numerous aspects in the determination as to whether the request should be approved by MyState.

If MSB approve the loan, and it is regulated under the National Consumer Credit Protection Act 2009, MSB will let the borrower know that they can obtain our assessment about whether it is not unsuitable for them.

If there is a guarantor to the loan MSB will let the guarantor know that they can also request a copy of the assessment above free of charge.

#### 3.2 Responsibilities in Loan Assessment

It is of paramount importance to apply the intent of the Principle of Responsible Lending. Failure to do so and providing applicants with debt that is unaffordable or unsuitable is unconscionable lending.

Where an applicant/s balance sheet does not align with their overall situation or disclosed liabilities, the lending officer should make reasonable enquiries and obtain evidence of ownership of any significant assets detailed in the Statement of Position. For example, superannuation statements to prove balance of super held, copy of rates notice to prove ownership of any property held etc.
In terms of the requirement, a “significant asset” is considered any single asset or group of assets that the assessing officer considers unusual that the applicant would hold if there is no corresponding debt.

It is the responsibility of the broker to ensure:

- Financial information obtained is correct and accurately reflects the situation of the client's capacity to meet the requirements of any additional indebtedness in line with the requirements of responsible lending
- All material risks have been identified and addressed
- Customer financial information has been obtained in line with the Privacy Act and Internal procedures
- Verify all documentation is true and accurate and not falsified
- Product features/parameters, including pricing is appropriate
- Proposal content is accurate and static data is accurately recorded in the application
- Exit strategies and Interest Only rationales must be defined by the borrower themselves and not advocated by a lender or third party. This is to ensure that the borrowers understand their responsibilities and acceptance of the strategy and that it suits their future objectives.

**In assessing any loan, MyState can request for addition information over and above what is stated in this document.**

### 3.3 Source of Truth

Loan applications can be received into the business and subsequently assessed and processed by a number of means, including via Next Gen, paper based and direct into LendFast. It is imperative that a consistent and reliable source of truth is established. The source of truth should provide an accurate reflection of any source document that underpins the purpose of the application.

The determination for the source of truth as to the purpose is:

- Where the application was originated on the LendFast Platform the source of truth is the applicable purpose as per the drop down box within the Loan Information / Product Selection screen;(Radio Button)
4. Types of Mortgage Loans

MyState Bank offers residentially secured mortgages for both owner occupied and investment purposes. These are all closed end loans with a fixed amortization schedule. No balloon repayments are allowed as part of this product construct. The products allow top-ups to existing mortgage loans and also redraws.

The types of Loans are:
- Owner Occupied Loan
- Residentially secured Investment Loan
- Construction Loan (refer section 15)
- Parental Guarantee Loan (refer section 14)
- Secured Lines of Credit
- Secured Overdrafts

4.1 Loan Repayment Terms

Maximum loan term for a residentially secured loan is 30 years. Loans may be approved on either a principal and interest or an interest only basis.

Lower loan terms may be applied from time to time to reduce the overall risk associated with a loan.

4.2 Interest Only Loans

Loans may be approved on an interest only basis. Brokers should enquire as to the reason for the interest only request, and this must be recorded in the supporting loan notes to ensure compliance with responsible lending.
Suitable enquiries must take place to ensure there is a sound economic basis for interest only payments for owner occupied loans. A borrowers’ inability to afford repayments on a principal and interest basis is not an acceptable reason to grant such a facility.

| 4.3 Approval period | The approval is valid for a period of 90 days of the date MyState has signed the offer and loan contract. If an extension is required at the expiry of this term, reconfirmation of relevant information is required to confirm the integrity of the initial approval i.e. updated payslips, updated privacy, and new credit check. Pre-approvals are valid for 90 days from the approval date. If an extension is required the above verification is to be completed. |

| 5. Documentary Requirement | All applications need to have the following documentation with references to Know Your Customer and Responsible Lending requirements |
| | • Signed application and privacy forms from all parties  
| | • Medicare card  
| | • Verification of ID from all parties as required under AUSTRAC – Refer Appendix D  
| | • Funds to Complete (including First Home Owners Grant Application (if applicable)  
| | • Employment and Income  
| | • Living Expenses  
| | • Loan Commitments  
| | • Servicing Assessment (including Manual Servicing Calculator)  
| | • Valuations  
| | • Cash Out Requirements  

Should any doubt exist regarding the accuracy and the integrity of the data provided, further information is to be requested by the assessing/approving officer |

| 5.1 Checklists | Broker’s lodging application with MyState are also required to complete specific checklists to assist with the assessment process. These include: |
6. Funds to Complete

Source of funds to complete are to be verified and evidenced as per table below. If there appears to be doubt over the source of funds further investigation is to be undertaken by the assessing officer.

Where a deposit has been paid for purchase or construction, statements are required to evidence the source of these funds and to confirm that they were beneficially held by the applicants prior to being paid.

<table>
<thead>
<tr>
<th>Type of Savings</th>
<th>LVR</th>
<th>Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings</td>
<td>&lt;90%</td>
<td>MyState requires supporting evidence of sufficient funds to complete the purchase of the property. This is to take the form of the most recent bank transaction statement (including running balance) confirming the necessary funds are beneficially owned by the borrower. Note that only one statement is required unless the funds are held in multiple accounts and then the most recent statement from each account sufficient to total the necessary funds to complete are to be obtained.</td>
</tr>
<tr>
<td>Genuine Savings</td>
<td>&gt;90%</td>
<td>MSB requires a minimum 5% genuine savings for all loans over 90% LVR. Bank Statement to be provided as detailed above. MSB will not accept any loan with an LVR over 90% with non-genuine savings. This includes where the LMI premium is capitalised. ** See 6.1 for full details on genuine savings. ***Note that MyState is not currently accepting applications &gt;90% LVR.</td>
</tr>
<tr>
<td>Non Genuine Savings</td>
<td>Source of funds to be investigated. If funds are borrowed from a third party, terms of repayment are to be included in commitments.</td>
<td></td>
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<tr>
<td>---------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>Collateral security/ equity</td>
<td>Considered genuine savings</td>
<td></td>
</tr>
<tr>
<td>Gifted funds</td>
<td>Statutory Declaration to be obtained confirming that funds are a gift and are non-repayable.</td>
<td></td>
</tr>
<tr>
<td>Cocktail Loans</td>
<td>Cocktail Loans can be defined as a combination of a mortgage backed loan and a Personal Loan of any amount, where the funds from Personal Loan are being used to fund a shortfall, or a part thereof, of the purchase price of the property such as the deposit and/or associated purchasing costs.</td>
<td></td>
</tr>
<tr>
<td><strong>Cocktail loans are not allowed by MyState Bank</strong></td>
<td>Any exception to the above should be discussed with your BRM who will need to obtain credit approval.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>6.1 Genuine Savings</th>
<th>Genuine savings is defined as a demonstrable savings pattern established over a minimum period of 3 months in the name of at least one borrower prior to the loan application being received.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Genuine savings can be from any of the following sources:</td>
<td></td>
</tr>
<tr>
<td>- Funds held or accumulated in savings accounts for three months or more</td>
<td></td>
</tr>
<tr>
<td>- First Home Saver Account or First Home Super Saver Scheme (initiative by the Australian Government)</td>
<td></td>
</tr>
</tbody>
</table>
• Equity in existing residential property or funds from sale of residential property
• Term deposits held for three months or more
• Shares held for no less than the last three months
• Accelerated loan repayments – where savings have been sacrificed by making accelerated loan repayments over the last three months, the amount of the excess repayments, can be accepted in lieu of genuine savings.

The following are not acceptable forms of genuine savings:
• Gifts or inheritance (unless savings have been sacrificed by making accelerated loan repayments - see genuine savings above)
• Proposed Savings Plans or Rental Purchase Plans of any kind
• Sale of assets (other than real estate) for example, motor vehicles
• FHOG
• Funds held in company/business accounts
• Builder’s or vendor’s rebate/incentive.

Under certain circumstances MSB will allow rental payments as a mitigant to offset the genuine savings requirement for LMI backed loans. The following additional underwriting requirements apply:
• Owner-occupied purchases only
• All borrowers must be First Home Buyers and meet Genworth’s Firsthome requirements
• Funds cannot be borrowed (i.e. personal loans, credit cards or loans from family members)
• Lump sum payments such as bonuses, tax refunds and proceeds from sale of assets, can be accepted
• First Home Owner Grants (FHOGs) can be accepted at the time of application to contribute to the 5% savings/deposit requirement
• All funds required to complete the purchase transaction (deposit plus settlement disbursements minus the FHOG), must be evident at the time of application.
<table>
<thead>
<tr>
<th>6.2 First Home Owners Grant (FHOG)</th>
<th>The amount of the FHOG or similar government subsidy can be utilised for determination of satisfying 'cost to complete' where the FHOG application has been submitted and approved at time of land settlement, and the overall integrity of the LVR limits remain unchanged. Where the FHOG application has not been approved at time of land settlement, then 100% of construction cost is withheld, with client making alternate arrangements to make up additional funds required to complete land settlement.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The Key to Responsible Lending is verification of Employment, Income, Expenditure and Commitment and loan suitability.</strong></td>
<td></td>
</tr>
</tbody>
</table>
| 7. Employment and Income | All allowable income that can be verified is to be utilised to ensure we are providing most up to date servicing position for the application. The following topic covers:  
- Unacceptable Income  
- Employment Verification  
- Verification, Documentation and Calculations applied depending on income type. |
| 7.1 Unacceptable Employment and Income | Unacceptable income:  
- Board  
- Workers compensation/Income Protection  
- Unemployment/JobSeeker/Newstart allowance  
- Parenting Payment  
- Austudy  
- Youth Allowance  
- Entertainment Allowance  
- Travel Allowance  
- Meal Allowance  
- Any overseas income (including rental income, investment income, pensions and dividends)  
- Foreign currency loans |
| 7.2 Employment Verification | **PAYG**  
All employment is required to be verified via phone verification with the employer.  

An independent source is to be used to obtain the employer’s contact details (i.e. white pages etc.). Reliance on contact details supplied by a borrower or a third party should be avoided. MyState needs to be able to ensure that the person they are speaking with to verify employment has not been ‘coached’ to supply inaccurate data.  

Employment verification is required for all loans.  

**Self Employed**  
Documents provided for self employed applicants (tax returns, financials, etc.) are to have their authenticity verified by phone call to the accountant/tax agent that has prepared.  

An independent source is to be used to obtain the accountant’s contact details (i.e. white pages etc.). Reliance on contact details supplied by a borrower or a third party should be avoided. MyState needs to be able to ensure that the person they are speaking with to verify financial document preparation has not been ‘coached’ to supply inaccurate data. |

- Retained/previous years' company or business profits  
- Shares given as a bonus  
- Short term or irregular sources of income are not acceptable  
- Foster Care  
- Higher Duty Allowance
### 7.3 Permanent Full Time and Part Time Employees (PAYG)

<table>
<thead>
<tr>
<th><strong>Period of Employment</strong></th>
<th>Minimum of 6 months with current employer. If less than 6 months then must have held at least 2 years continuous previous experience within the same industry and occupation type.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Documentation Required</strong></td>
<td>Most recent computer generated payslip which contains at least 2 months year-to-date figures, with the name and ABN of the employer evident, or a combination of any two of:</td>
</tr>
<tr>
<td></td>
<td>• Employer letter (on letterhead with ABN etc.) showing gross income, frequency of payment, role or position, length of employment, type of employment (i.e. full time/part time/casual/contract), and break down of the salary package (if applicable)</td>
</tr>
<tr>
<td></td>
<td>• Employer contract showing gross income and frequency of payment</td>
</tr>
<tr>
<td></td>
<td>• Latest PAYG payment summary or tax assessment notice</td>
</tr>
<tr>
<td></td>
<td>• One computer generated payslip</td>
</tr>
</tbody>
</table>

### Base Wage or Salary:

| Description | Normal Salary paid at base rate for scheduled hours. |

Where applicant is part time, evidence must be obtained confirming their contracted minimum hours either via specific enquiry in the phone employment verification or by obtaining a copy of their latest employment contract. Additional part time hours worked in excess of the contracted minimum are to be considered under overtime procedure.

### Maximum Allowable Income

100% of base income is available for assessment
Overtime:
Description
Income paid by an employer at or above the base rate of pay for time worked beyond their scheduled hours.

Maximum Allowable Income
A maximum of 80% of overtime may be accepted for servicing purposes based on the year-to-date total. Payslip must contain at least 3 months income and where the overtime in the period aligns with the average of the YTD overtime paid. Where the payslip does not include 3 months YTD, payslips from the latest periods in the previous financial year are to be obtained to complete a 3 month period for assessment that includes the current YTD. This is then to be compared to either the prior year’s last payslip, Payment Summary or letter from employer, with the lower amount to be used for servicing.

Penalty Payments/Shift Allowances/Car Allowance:
Description
Allowances paid by an employer at or above the base rate.

Maximum Allowable Income
100% of assessed work based shift allowances and penalties may be utilised for servicing purposes based on the average of the YTD total. The payslip must contain a minimum of 3 months income and evidence that the penalties/shift allowances on the payslip aligns with the average of the YTD.

Commission:
Description
Income paid above the base retainer when sales targets/incentives have been achieved.

Maximum Allowable Income
On the basis that the terms of payment and potential payment remain the same, 80% of commission can be utilised for servicing. Must have been in receipt of Commission for minimum two years with evidence provided. The 2020 financial year’s commission can be used if this amount is lower than the 2019 financial
year, otherwise the average of the two years is to be used. This is to be evidenced by group certificate, employer letter or similar.

Due to Covid-19, payslips showing payment of the 2 most recent commissions are required.
- Where the payment frequency of commissions is quarterly or less, the annualised commission from the latest quarter paid is to be used if this is less than the above calculation.
- Where the payment frequency of commissions is greater than quarterly, 80% of the lower of the amount calculated above versus the latest commission annualised is to be entered as commission income (which will be sensitised a further 80% by the servicing calculator).

**Bonus:**

<table>
<thead>
<tr>
<th>Description</th>
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<tbody>
<tr>
<td>Income paid above the base retainer when sales targets/incentives have been achieved.</td>
</tr>
</tbody>
</table>

**Maximum Allowable Income**

On the basis that the terms of payment and potential payment remain the same, 50% of bonus can be utilised for servicing. Must have been in receipt of Bonus for minimum two years with evidence provided. The 2020 financial year’s bonus can be used if this amount is lower than the 2019 financial year, otherwise the average of the two years is to be used. This is to be evidenced by group certificate, employer letter or similar.

**Company Supplied Vehicle:**

A fixed amount of $5,000 pa will be added to the non-taxable income of PAYG applicants where a borrower can evidence use of a fully maintained company vehicle.

A letter from the employer or the employment contract is required to confirm the benefit.

A ‘vehicle’ for the purposes of allowing inclusion of the ‘company vehicle allowance’ is classed as a standard non-commercial passenger vehicle.
| **7.4 Contract Employees** | **Period of Employment**  
Must have been in their current role for a period of no less than 6 months, and be able to provide evidence that the contract will be ongoing.  
Where a dependent contractor is considered skilled, professional/office based, i.e. nurses, teachers, IT etc., the contractor must have 3 years’ experience in the same industry, and the contract must have a minimum of 3 months left to run or evidence of a new contract.  
A dependent contractor is defined as a contractor with a single income and where the employer administers superannuation and PAYG tax requirements. |
| **Documentation Required**  
Proof as per PAYG employee with addition of contract is required.  
**Maximum Allowable Income**  
100% of contract income may be accepted. |

| **7.5 Casual Employees and/or Second Job** | **Period of Employment**  
Must have held their position for a minimum of 6 months with their current employer.  
Casual income to be calculated using the Year-To-Date calculator which will project income for 46 weeks (this covers unpaid annual leave of 4 weeks and sick leave of 2 weeks). This is to be compared to previous years’ PAYG summary/ATO Assessment and 3 months transaction statements to ensure consistent income being received.  
Due to Covid-19, we will also require payslips covering the latest full one month period. From these payslips a weekly average is to be calculated and multiplied by 46. The lower of this calculation versus the YTD calculator projected income is to be used for servicing. |
| **7.6 Applicants Employed by Family** | **Period of Employment** | Minimum of 6 months in the current position or 12 months continuous previous experience within the same industry if employed as permanent employee. |
| **Documentation Required** | Latest taxation return or PAYG summary plus latest payslip, and payment is to align with latest bank statement. If unable to provide tax return or PAYG summary then 3 months bank statements showing regular salary payments is required. |
| **Maximum Allowable Income** | 100% of base income may be accepted |

| **7.7 Self Employed** | **Period of Employment** | Must have been trading for a minimum of 2 years. Independent contractors who invoice their employer for payment should be treated as self-employed. |
| **Documentation Required** | Self-employed applicants must provide the following documents for income verification: |
| | • ASIC ABN search |
| | • Latest two years personal taxation return |
| | • Latest two years ATO notice of assessments |
| | • Latest two years business taxation return (for partnership, companies, trusts and sole traders) |
- Two years business financial statements, or 1 year statement containing 2 consecutive years performance (for partnership, companies and trusts)

Servicing will be based on the latest year, but discrepancies between the Profit and Loss for the two years must be considered and appropriate comments made outlining how any increased profit from trading will be sustained.

In addition to the above, due to Covid-19 effect on business in Australia we will require ATO BAS (Business Activity Statements) notices for the period from the most recent financial statements to the application date (must include July-September 2020/most recent quarter).

The Net Profit Before Tax (NPBT) for the business to be used for servicing will be the lower of the following calculations:

- Business income less expenses from the 2019 tax return
- Total Business income from Q1 to Q4 BAS less expenses from the 2019 tax return
- Business income from July-September 2020 BAS annualised less expenses from the 2019 tax return

Where 2020 full financials and tax returns and NOA’s are available, previous 2 quarters BAS will be required (must include July-September 2020 quarter) and NPBT for the business to be used for servicing will be the lower of the following calculations:

- Business income less expenses from the 2020 tax return
- Business income from latest BAS annualised less expenses from the 2020 tax return

For businesses with turnover of less than $75,000 per annum and BAS are not completed, business transaction account statements covering the period 1st July 2020 to 30th September 2020 are required, with income credits annualised and compared to the business income from the most recent Tax Return. The lower income figure is to be used in conjunction with annual expenses taken from the most recent Tax Return.
It is required that the most recent financial statements are submitted. Considerations to be kept in mind for timing of filing tax returns, (example of financials required for FY2018/2019)

We currently require 2017/2018 and 2018/2019 returns.

After 30th June 2020, where the financials for FY2019/2020 have been completed, we will require 2018/2019 and 2019/2020.

**Maximum Allowable Income:**

**Sole Traders/Partnerships:**
100% of net Personal Services Income generated from the normal course of business, extracted from the “Business and professional items section” (P8) of the latest tax return supplement (business income less expenses). Any extraordinary items that are not related to the business operation (capital gains, interest, insurance claims etc.) are to be excluded.

**Companies:**
Undistributed profit derived from the normal course of business, extracted from section 6 “Calculation of Total Profit or Loss” of the latest company tax return and excluding any extraordinary items that are not related to the business operation (capital gains, interest, insurance claims etc.). Borrowers are required to have a minimum 50% shareholding in the company and income is to be prorated in line with percentage shareholding.

Note: If the borrower has received a dividend from the company, this is not to be considered.

Undistributed profit that is used to service a loan will have an effect on income sources and liabilities that are calculated based on an applicant’s taxable income.

- Any reduction to other income sources is to be considered and applied in line with the applicable income test (e.g. FTB or any other Centrelink income, Child Support income, etc.) available on the appropriate website.
Similarly, increases to liabilities based on applicants needing to access undistributed profits are to be applied (e.g. Medicare Levy Surcharge, HECS/HELP debt repayments, Child Support Costs).

Where a loss is recorded, this is to be recorded in NextGen as a financial expense and not deducted from other sources of income.

Addbacks:
100% of depreciation, voluntary superannuation contributions relating to the directors above the super guarantee threshold and interest may be added back as long as the Director(s) are the applicants.

Additional Information:
In all cases above, the loan commitments of the company/business need to be included in servicing calculations. External debt obligations entered into since the last financials statement date are to be included and will be assessed for servicing.

If an applicant is a joint Director of a company or in a partnership with a third party who is not an applicant on the loan, the following applies:
- Applicant must hold a minimum 50% shareholding in the company or partnership (Immediate family ownership can be combined to meet 50% minimum requirements)
- Surplus undistributed profit and addbacks after the loan commitments of the company have been taken into account may be utilised
- The percentage of the surplus should align with the shareholding
- Should a loss or deficit after considering the businesses’ loan commitments be recorded in business/company financials, this is to be deducted from the overall income used

Where applicants have ownership of a business and we are not relying on that income for servicing calculations, financials as above are still required to evidence that there is not a business loss liability applicable.
### 7.8 Salary Packaging or Salary Sacrifice

If applicants have access to salary sacrificing noted on payslip, depending on the use of the payment depends on calculation to be utilised.

If Salary Packaging is for personal expenses or loan repayments:
- Salary packaging for personal expenses or loan repayments can be treated as non-taxable income (net of administration fees). If packaging is for a loan then full loan commitment is to be noted as a financial liability.

When loading to the calculator the gross income less the salary packaging (pre-tax amount) is entered as base income with the salary packaged amount (pre-tax amount) net of administration fees loaded as tax free.

If Salary Sacrifice is to applicants Super:
- Provided the borrower’s total package is available as cash at the borrower’s option, then the total package can be treated as gross income (less compulsory superannuation contributions) for servicing purposes.

### 7.9 Rental Income - Residential

The type of transaction and ownership of the investment property will determine the documentation required for acceptance of rental income.

**Documentation Required**

**For existing investment properties one of the following will be required:**
- Tax Return (providing the property is still held as an asset by the same parties), OR
- 1 month rental statement from most recent month from the property manager where it can be clearly identified what the regular (weekly/fortnightly/monthly) rental amount received is. Where the regular rental amount cannot be determined from 1 month rental statement then 3 months rental statements are to be obtained, OR
- Transaction statements that clearly identify the deposit as rental associated with the specific property evidencing stable payments for the prior 6 months, OR
- Lease Agreement.
If purchasing new owner occupied and renting out current owner occupied:
- Written rental appraisal from a recognised property manager, OR
- Rental Assessment from a panel Valuer.

The lower figure of the rental appraisal or the rental assessment from the panel valuer is to be utilised.

For properties being purchased as an investment: (One of the following)
- Lease Agreement, rental statements and transaction statements as per above if the property is already tenanted when purchased, or
- Written rental appraisal from a recognised property manager, or
- Rental Assessment from a panel Valuer.

For all properties currently tenanted, current month bank statement or current month rental statement from property manager must be obtained to evidence that full rent payments are currently being received.

The lower figure of the rental appraisal or the rental assessment from the panel valuer is to be utilised if the property being purchased is not currently tenanted.

For borrowers who are leaving, or have left, their principle place of residence to move in with relatives:
It is important to determine the validity of a borrower’s current living situation when determining inclusion of rental income for a borrowers only owned property.

Where a borrower has stated that they are living with relatives, and their only owned property is now classified as an investment property, the following should be obtained/considered:
- An arm’s length lease with a term of no less than 12 months should be obtained for the investment property
- Rental statements and transaction statements showing payments are being received
Notional rent should be included in the servicing calculation.
Care needs to be taken where the situation of the borrower/s does not match their stated living situation. The reasonableness and sustainability of proposed living arrangements giving consideration to the family structure and accommodation capacity should be considered.

**Maximum Allowable Income**
Generally 80% of annual rental income figure can be used in servicing unless the property is located in a high density postcode (refer appendix B) where 70% of the annual rental figure will be used. Investment property expenses as detailed below are then to be subtracted from this figure to ascertain a net rental amount to be used as taxable income for servicing:

- Council Rates
- Insurances
- Body Corporate Fees
- Property Management Fees
- Any other fees and costs such as maintenance

<table>
<thead>
<tr>
<th>7.10 Rental Income - Commercial</th>
<th>Commercial property rental income is only available when the commercial properties are rented by a non-related party (not rented by any of the applicants)</th>
</tr>
</thead>
</table>

**Documentation Required**
Taxation returns and current lease documents will be required for all properties. Property expenses are to be deducted from the shaded gross rental used and evidenced to the taxation return or lease. Rental appraisals will not be accepted.

WALE (weighted average lease expiry) calculation is to be used when utilising rental income from commercial properties.
### Maximum Allowable Income

WALE is a metric used to measure a property portfolio’s risk of becoming vacant and is measured in years. The following is to be used in assessing appropriate gross rental.

- **Less than 12 months** – 40% gross rental
- **12 months to 2 years** – 50% gross rental
- **2 years to 4 years** – 60% gross rental
- **Greater than 4 years** – 70% gross rental

### 7.11 Interest and Dividends

**Documentation Required**

Two years evidence required. Latest year is only to be used if this amount is lower than the previous year, otherwise the average of the two years is to be used. Evidenced from taxation return as well as latest bank statement for interest payment to ensure funds still held.

**Maximum Allowable Income**

80% of the Interest from an ADI can be used as income.

Dividends from a shareholding are not to be used for servicing.

### 7.12 Pensions and Government Allowances

**Documentation Required**

Letter from Government Department, Fund Manager or income provider (e.g. Centrelink, RBF etc.) which lists the benefit amount and frequency.

**Maximum Allowable Income**

100% can be used for servicing on the basis that the pension is of a permanent nature and irrevocable.
<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
<th>Documentation Required</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.13</td>
<td>Family Allowance (Centrelink Benefits)</td>
<td><strong>Letter from Government Department which lists the benefit amount and frequency. Payments must be payable for the next 5 years (i.e. only for dependents 13 years of age and under).</strong></td>
<td><strong>Maximum Allowable Income</strong>&lt;br&gt;100% can be used for servicing</td>
</tr>
<tr>
<td>7.14</td>
<td>Child Maintenance or Child Support</td>
<td><strong>The Child Maintenance Agreement must be registered with the Child Support Agency and we require bank statements showing 3 months consistent payments. Payments must be considered permanent and for no less that the next 5 years (i.e. only for dependents 13 years of age and under).</strong></td>
<td><strong>Maximum Allowable Income</strong>&lt;br&gt;100% can be used for servicing</td>
</tr>
<tr>
<td>7.15</td>
<td>Maternity / Paternity leave</td>
<td>Payment is a source of income that provides financial support to working parents of a newborn or recently adopted child. Care must be taken with income calculation for applicants either on maternity leave or about to begin maternity leave. There must be a clear intention to return to work (with same employer) and this is to be acknowledged.</td>
<td><strong>Documentation Required</strong>&lt;br&gt;The following information must be obtained in writing from the employer: &lt;br&gt;- Date maternity leave is to commence/Commenced &lt;br&gt;- Date returning to work &lt;br&gt;- Breakdown of income payments and time frames whilst on leave (examples below): &lt;br&gt; 6 weeks half pay of $xxx per week</td>
</tr>
</tbody>
</table>


• 18 weeks Government Parental leave $xxx per week (if known by employer or confirmed by applicant)
• Employment conditions when returned to work (examples below):
  • Continuing with same employment conditions as prior to leave
  • Part time employment at 60% of previous full time position and salary,
  • Part time 30 hours per week at $25 per hour

**Maximum Allowable Income**
Income calculation will be salary to be paid when returning to work taking into account future changes to work situation such as reduced hours of employment. 100% of this income can be used for servicing position.

Servicing must be evident for entire leave period including periods with limited or no income. If servicing is not able to be proven, then mitigant on how the repayments and expenses will be maintained are to be detailed. These will need to be provided to your BRM who will need to obtain credit approval.

For the months servicing is not evident due to lower income payments, the use of cash savings can be used as a mitigant. The minimum cash holding required is sufficient to cover the repayments and expenses for the months when servicing is not met with an additional buffer of 25%. Proof of savings is to be provided along with a statutory declaration confirming the clients are aware of their commitments and the use of savings may be required.

<table>
<thead>
<tr>
<th>7.16 Other Income (Air BnB, Bed and Breakfast)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due to Covid-19, Airbnb or similar income is not acceptable at this time.</td>
</tr>
</tbody>
</table>
### 7.17 Deductible Interest (Negative Gearing)

The tax benefit gained from the use of deductible interest may be included for servicing assessment for new applications.

Deductible Interest may be used for any **Existing** Investment Loans and **New Investment Purchases below 80%** LVR but **not** for any new purchase investment loans at 80% LVR or above without simultaneous Owner Occupied refinance meeting the below conditions.

**Deductible allowable for the following scenarios**

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refinance of a current investment loan from another ADI.</td>
<td></td>
</tr>
<tr>
<td>Existing investment loans (that are not part of the new proposed loan/s), either with MyState or another ADI, and these loans will be ongoing.</td>
<td></td>
</tr>
<tr>
<td>Transfer current owner occupied to investment coinciding with the purchase of a new owner occupied property.</td>
<td></td>
</tr>
<tr>
<td>Purchase of a new investment property where LVR is below 80%.</td>
<td></td>
</tr>
<tr>
<td>Purchase of a new investment property where refinance of current Owner Occupied residence is occurring simultaneously and the Investment loan amount does not exceed the Owner Occupied loan amount. Any proposals outside this to be discussed with your BRM.</td>
<td></td>
</tr>
<tr>
<td>Deductible is NOT allowable for the following scenarios</td>
<td></td>
</tr>
<tr>
<td>------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>Purchase of a new investment property where LVR is 80% or greater without refinance of current Owner Occupied residence meeting the requirements above</td>
<td></td>
</tr>
<tr>
<td>New investment loan that has been approved for finance by an alternative ADI (has not settled yet but is included for servicing)</td>
<td></td>
</tr>
</tbody>
</table>

Any exceptions are to be discussed with your BRM who will need to obtain credit approval.

Servicing is assessed on debt at the higher of the floor rate of 5.00% or the actual product rate plus 2.50%. Tax benefit is based on the actual product rate applicable to the loan at time of assessment before application of buffer.

**Maximum Allowable Income**
100% of deductible interest may be used as per the calculation completed in the manual capacity calculator.

<table>
<thead>
<tr>
<th>7.18 JobKeeper</th>
</tr>
</thead>
<tbody>
<tr>
<td>With the introduction of the JobKeeper payment we will now be able to utilise income from businesses that may be affected by opening restrictions or decreasing income which may affect their employees’ income levels. If a business has been affected and the business has been closed or restricted, we will require confirmation that they are either still in receipt of their income or have been paid utilising the JobKeeper payment. If they cannot show they are still in receipt of their income then we will not be able to assist with using the income from their employer for servicing.</td>
</tr>
</tbody>
</table>
The use of JobKeeper is restricted to PAYG employees unless approval for use by self-employed is provided by discussing the application and detailing how the business/sole trader is allocating the funds into their financials.

**Documentation Required**
Where applicants are in receipt of JobKeeper income the following is required:

- 2 most recent payslips,
- Payslips covering the monthly / two fortnightly / 4 weekly pay period(s) immediately before 1 March 2020.

This is to determine the “average number of hours actively engaged in the business per week on average in the month of February” as per Government guidelines, to determine the applicable JobKeeper rate.

**Maximum Allowable Income**
If the two most recent payslips show their normal level of income as compared with February 2020 payslips and there has been no effect due to COVID-19 the income calculation will be as per normal calculation.

If the recent payslips show that they are being paid less than their normal level of income shown on February 2020 payslips (or if their gross income equals the current level of JobKeeper payment being $1,500pf until 28/9/2020, $1,200pf until 4/1/2021 and $1,000pf after 4/1/2021), then income allowable will be based on the average number of hours actively engaged in the business during February as per the following table:
### Average hours actively engaged in the business during February:

<table>
<thead>
<tr>
<th></th>
<th>20 Hours or more</th>
<th>Less than 20 hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower of</td>
<td>$1,000 per fortnight or</td>
<td>$650 per fortnight or</td>
</tr>
<tr>
<td></td>
<td>normal income at Feb 2020 level</td>
<td>normal income at Feb 2020 level</td>
</tr>
</tbody>
</table>

Where applicant is currently paid more than the above and has indicated that this will continue, we will require:

- Employer letter (on letterhead with ABN etc.) detailing income level that will continue to be paid up to and after the 28 September 2020 and 4 January 2021 reductions to JobKeeper payment

For clarification, in all cases where JobKeeper payment is being received, income used is not to exceed income level from February 2020.

### 8. Living Expenses

All of the borrowers’ living expenses need to be considered when determining a borrowers servicing and ability to repay the debt.

#### 8.1 Assessment of Dependents and Households

Assessment of living expenditure should be done in context to the number of children/dependents in the family

In case of joint applications the required share of expenses must be assessed and stated in the application. If a married couple are living in two separate households then they are to be listed for servicing purposes as single and separate expenses loaded for each household. Dependents to be included in appropriate household.

For the purpose of servicing, a dependent is defined as:

- A spouse or life partner
- Child under 18 and primary care is provided by the applicant
- Child over 18 who is full time study and does not earn independent income
- Parents living with the applicant/s who do not support themselves financially

Medicare card is to be used to assist with verification of partner and dependents.

The table below provides clarification for scenarios that fall outside the above parameters:

<table>
<thead>
<tr>
<th>If the person is ...</th>
<th>Then ...</th>
</tr>
</thead>
<tbody>
<tr>
<td>A minor, and a Carer is in receipt of allowance or similar benefit for caring for that person</td>
<td>Include as a dependent</td>
</tr>
<tr>
<td>Is not a minor and in receipt of own benefit, and a benefit is payable to the carer</td>
<td>Exclude as a dependent</td>
</tr>
<tr>
<td>Single borrower with non-applicant spouse/partner</td>
<td>Include as a couple for assessment</td>
</tr>
<tr>
<td></td>
<td><strong>Exception:</strong> Evidence of spouse/partner income is obtained to verify they are self-supporting</td>
</tr>
<tr>
<td>Paying child support/maintenance</td>
<td>Include actual confirmed child maintenance amount in expenses or if unable to be confirmed include as a dependent</td>
</tr>
<tr>
<td>Foster Children</td>
<td>As the payment for Foster children is a direct reimbursement of costs this income is not available to be used for servicing and as such the foster children can be exempt from being classified as a dependent</td>
</tr>
</tbody>
</table>
### 8.2 Expense Verification

Applicant/s will be required to advise a detailed list of their current living expenditure taking into account additional expenses required for costs associated with the current application (e.g. Rates and Insurance of new owner occupied property purchase).

Expenditure included within Living Expenses calculation are:

- Child care
- Clothing and Personal care
- Education
- Groceries
- Insurance
- Medical and Health
- Recreation and Entertainment
- Telephone and Internet
- Transport
- Utilities and Rates – Owner Occupied
- Other living expenses

Please note: If any of the above categories have the expense captured as ‘Nil’ these need to be investigated and the reason detailed.

In addition to living expenses the following needs to be captured. (These need to be captured in addition to the applicant’s stated living expenses):

- Expenses related to non-primary residences that are not captured under net rental calculations (e.g. shacks/holiday homes, vacant land or properties where rental income is not available)
- Child Support Costs
- Rental Expenditure or Notional Rent
- Medicare Levy Surcharge if applicable
The assessing officer is required to satisfy themselves of the adequacy of expenses in relation to number of dependants, income and property ownership. In some cases this may require additional documentation from the customer.

If MSB has requested transaction statements for any reason these will be utilised to verify stated expenses.

Other Expenses that may be required:

<table>
<thead>
<tr>
<th>Expenses</th>
<th>Amount Required to be captured</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notional Rent</td>
<td>If applicant has been living with family/friends for less than 5 years, notional rent of $150 per applicant per week is to be applied. If board being paid is higher than notional rent then the higher amount is used</td>
</tr>
<tr>
<td>Business/Company commitments</td>
<td>Where Director(s) are applicants and undistributed profit/addbacks are utilised in servicing, all business company loan commitments are to be included in servicing calculation. Where a partnership/business is held with an unrelated third party (not a party to the loan), analysis is to be undertaken to ensure there is no reliance on business income being utilised in the servicing calculation to meet company loan commitments</td>
</tr>
</tbody>
</table>
9. Loan Commitments

Loan commitments must be assessed utilising the credit bureau report and information provided by the customer to confirm loan balances. In all cases where there is a mismatch between the information provided by the customer and the credit report further enquiry should be made by the assessing officer.

The following is to be used for calculation of liabilities and other expenses

<table>
<thead>
<tr>
<th>Existing Commitment</th>
<th>Commitment Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing OFI home loans not being refinanced</td>
<td>Applicant stated repayments. Available redraw to be included in repayment (Please note buffers are to be applied to existing mortgage liabilities):</td>
</tr>
<tr>
<td>Personal Loans</td>
<td>Applicant stated repayments</td>
</tr>
<tr>
<td>Credit Cards/Store Cards</td>
<td>3.8% of the limit monthly (This is to show the ability to repay the amount of the credit card limit within a 3 year period.</td>
</tr>
<tr>
<td>Secured Lines of Credit</td>
<td>Based on loan term of 30 years</td>
</tr>
<tr>
<td>Short term loans – Zippay, Afterpay, Payway, etc.</td>
<td>As per contracted product arrangement</td>
</tr>
</tbody>
</table>

9.1 Conduct of existing debt

The conduct on existing debt can be verified via the bank statements, loan statements or through the credit bureau reports (Comprehensive Credit Reports – CCR).

Any arrears on existing debts must be investigated and an acceptable explanation supplied by the applicant.

9.2 Credit Report

Credit reports of are to be obtained on all borrowers, guarantors and any related entities and reviewed as part of the assessment process of an application.

All credit enquiries within the last 12 months are to be referenced to the statement of position provided by the applicant/s to ensure there are no discrepancies. If any doubt exists over the accuracy of information held, MSB may request 3 months transaction statements which will be carefully perused for...
<table>
<thead>
<tr>
<th><strong>Undisclosed Debts</strong></th>
<th>The assessment is also to confirm the directors of any related entity and confirmation of directorships of individual borrowers and guarantors.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Under the Comprehensive Credit Reporting, the conduct of loans with other financial institutions (OFI), where these are reported, provide greater depth of analysis of the applicants conduct.</td>
</tr>
<tr>
<td></td>
<td>Where a loan is identified as having arrears additional information may be requested on a case by case basis.</td>
</tr>
<tr>
<td></td>
<td>The intent of the above is to evidence that any adverse arrears identified in the bureau report is not wider spread to the borrowers non CCR reported loans.</td>
</tr>
</tbody>
</table>

**Unpaid Defaults**

Where a default is showing as unpaid on a credit file, further investigation should be undertaken to determine if the default remains unpaid.

- If the applicant/s advise the default has been paid, evidence of this should be obtained and kept on file.
- Unpaid defaults are not acceptable and any loan with an outstanding default should be declined.

**Paid Defaults/Discharged Bankrupts/Part IX Agreements**

Paid defaults and/or discharged bankruptcies are to be investigated thoroughly. A full explanation and suitable mitigants are to be provided by the broker.

- Applications involving discharged bankrupts and/or paid defaults to other financial institutions will be assessed on a case by case basis, however, the overall financial position of the borrower should be strong.
- A borrower is to be discharged from bankruptcy for at least 2 years, with no further derogatories recorded against them before we will give consideration to providing any finance.
In circumstances where an application with a paid default to another financial institution or discharged bankruptcy is being recommended, satisfactory explanation and mitigants should be escalated to your BRM for review.

**Undischarged Bankrupt/Part IX agreement**
If the report indicates the applicant is either an Undischarged bankrupt as a Current Part IX debt agreement then the application should be declined.

9.3 Refinance and Debt Consolidation documentation and conduct

Care must be exercised that MyState is not approving higher risk refinance or debt consolidation applications. Where the purpose for the loan is for refinance or debt consolidation, specific reference is made to the verification requirements associated with the approval of finance for the same.

The debt consolidation/refinance should support an improved financial position, the reason for how this debt was accumulated should be carefully examined, increasing unsecured debt may highlight the borrower is living beyond their means.

Should any doubt exist regarding the accuracy and the integrity of the data provided, then further information will be requested by the assessing/approving officer.

Where the purpose of the loan is to refinance existing debts or debt consolidation, confirmation of the outstanding balance, and evidence of acceptable conduct on the loan/s being refinanced is evidenced by:

<table>
<thead>
<tr>
<th><strong>Loan Type</strong></th>
<th><strong>Documentation</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Home Loans/Lines of Credit</td>
<td>Most recent 3 months consecutive statements</td>
</tr>
<tr>
<td>Personal Loans</td>
<td>Most recent 3 months consecutive statements</td>
</tr>
<tr>
<td>Credit and Store Cards</td>
<td>Most recent 3 months consecutive statements showing credit limit and previous months’ transactions</td>
</tr>
<tr>
<td>------------------------</td>
<td>--------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Overdrafts/unsecured lines of credit</td>
<td>Most recent 3 months consecutive statements</td>
</tr>
</tbody>
</table>

9.4 Assets

Where an applicant’s balance sheet does not align with their overall situation or disclosed liabilities, the broker should make reasonable enquiries and obtain evidence of ownership of any significant assets detailed in the Statement of Position. For example, superannuation statements to prove balance of super held, copy of rates notice to prove ownership of any property held etc.

In terms of the requirement, a ‘significant asset’ is considered any single asset or group of assets that the applicant would hold even if there is no corresponding debt.

10. Servicing Assessment

Under the principles of responsible lending, for a loan not to be unsuitable for a borrower, the borrower must have the capacity to repay the loan without experiencing significant hardship.

Borrowers must demonstrate that they can repay their loan commitments and meet ongoing living expenses. The servicing must be assessed using MyState’s servicing calculator.

In the assessment of servicing it is critical to, as best able, ensure that the servicing position is detailed, and on which the loan is assessed is representative of the position going forward. While personal circumstances may change, assessment of affordability should not rely on historic information when you are aware of a change or pending change in circumstances.

To meet MyState servicing requirements the Net Disposable income ratio must be a minimum of 1:00 times cover with a positive surplus.
<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.1 Floor Rate</td>
<td>In the assessment of servicing capacity for residentially secured facilities, MSB adopts a minimum interest rate (The Floor Rate) for all new and existing mortgage backed loans to ensure that in times of extremely low interest rates the assessment is still reflective of what is a reasonable market position. This Floor Rate is set and reviewed quarterly by the ERC (with input from Treasury) and is currently 5.00%.</td>
</tr>
<tr>
<td>10.2 Interest Rate Buffer</td>
<td>The servicing assessment of a loan application requires a level of contingency to be added to serviceability to accommodate interest rate movements for new and existing mortgage backed loans. A buffer is to be added to the actual interest rate of the loan to provide repayment liability at a higher interest rate. The repayment is calculated on the current debt (including redraw) or the account limit. The buffer is to be applied to all mortgage secured debt facilities, both internal and external. The current interest rate servicing buffer for MSB residentially secured consumer loan facilities is 2.50%.</td>
</tr>
</tbody>
</table>
| 10.3 Assessment Rate | MSB residentially secured loan applications for new funding’s (including refinance) and for existing debts are to be assessed at an interest rate using the higher of:  
- The Floor Rate  
- The actual product rate PLUS the Interest Rate Buffer. |
| 10.4 Exit Strategy | Where the applicant is 55 years of age or older, the security property is owner occupied, and the loan term exceeds the government retirement age (currently 67), lending officers must outline, in the form of a repayment or exit strategy, how the loan will be serviced or repaid from the time that the borrower retires. Exit strategies must be ‘Owned’ by the borrower and must be accepted by the borrower and not advocated without the borrowers consent by a lender or 3rd party. This is to ensure that the |
| 10.5 Additional Servicing Requirements | Additional servicing restrictions may be placed on certain products from time to time. Please refer to Appendix A for current restrictions.  

**Servicing of Principal and Interest Loans**  
Where the loan is approved on a principal and interest basis, the loan should be repaid in full over the term of the loan. Servicing should be based on the same term with the inclusion of appropriate interest rate buffers / floor rates.  

**Servicing of Interest Only Loans**  
Where the loan is approved on an interest only basis, the loan should be assessed for servicing on a ‘residual term’ basis with the inclusion of appropriate interest rate buffers / floor rates. The ‘residual term’ equates to determining the applicable maximum loan term available for the product less the interest only term sought. Consideration should be given to ‘exit strategy’ in the determination of the maximum term available |

| 11. Valuations and LVR’s | Depending on the loan type and a number of variables, the required valuation and maximum LVR will vary between all available products.  

The type of valuation required is dependent on a number of variables and the following details these variables.  

The lesser of the valuation market value versus purchase price/land value plus builders contract is to be used where values do not align. |
<table>
<thead>
<tr>
<th>11.1 Valuation Types</th>
<th>MSB will utilise a variety of source documents to determine a collateral’s value for LVR calculation. The following source documents, subject to their respective restrictions, are accepted by MSB:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- Long Form Valuation&lt;br&gt;- Short Form Valuation&lt;br&gt;- Electronic Valuation Report (EVR) / Desktop Valuations&lt;br&gt;- Contract of Sale (COS) / Purchase Contract&lt;br&gt;- Automated Valuation Model (AVM)</td>
</tr>
<tr>
<td>11.2 Maximum LVR’s</td>
<td>The table attached under Appendix A outlines maximum LVR’s acceptable depending on loan type and purpose. Please refer to this table to ensure correct product is selected.</td>
</tr>
<tr>
<td></td>
<td><strong>Mortgage Insurance</strong>&lt;br&gt;If LVR is greater than 80%, Lenders Mortgage Insurance will be required using Genworth as our provider. MSB requires a minimum 5% genuine savings where LVR is greater than 90% inclusive of LMI premium.***Note that MyState is not currently accepting applications &gt;90% LVR.</td>
</tr>
<tr>
<td></td>
<td>Required documentation as per the streamline checklist and MSB Servicing Calculator is to be sent to Genworth for approval.</td>
</tr>
</tbody>
</table>
### 11.3 Validity of Valuations

<table>
<thead>
<tr>
<th><strong>New Loans:</strong></th>
<th>Long Form and Short Form Valuations, Desktops and also AVM’s are valid for 3 months.</th>
</tr>
</thead>
</table>

**Existing Loans**
Where an increase is required to an existing loan and a formal valuation is held on file, the following is applicable, except for properties within High Risk Category A or Oversupply Postcodes:

- Reliance on the existing formal valuation if the valuation is less than 12 months old or
- Reliance of the existing formal valuation if the valuation is greater than 12 months and less than 3 years:
  - where the LVR does not exceed 80% and
  - where the valuation is supported by an up to date AVM with an estimate of value of not less than the valuation being relied upon, and
  - has a forecast standard deviation of not greater than 12%.

This approach would not be utilised for any circumstances other than where a formal API valuation is held, and does not apply where, a purchase contract was originally utilised.

The utilisation of the existing valuation would also be underpinned by:

- There being no reasonable cause to question the ongoing validity of the valuation in the market at the time of application.

**Valuations HUB – Process for ordering valuations**
The Valuations HUB is the methodology to determine the correct valuation type and is not a change to the acceptable LVR’s.

To assess the correct valuation type the HUB evaluates the loan details input with a matrix to determine the most appropriate form of valuation required for the transaction. The Maximum LVR is stated in Appendix A.
### 11.4 Ineligible Securities

The following is a list of certain types of securities that are considered ineligible by MSB.

- Retirement Village Units
- Commercial Property Development (more than 2 dwellings in a development)
- Commercial Usage Properties
- Recreational or special use properties
- Converting from another purpose
- Transportable or relocatable homes
- Hotel/Motel Redevelopment
- Properties larger than 40 hectares
- Income Producing Property (apart from rent), including Boarding Houses and dual key properties
- Unique Properties
- Mixed Usage Properties
- Second mortgage security (unless pledged as part of a Parental Guarantee loan)
- Any dwelling or home unit with a living area under 40m² excluding balcony and carpark – Must have individual bedroom and bathroom
- Any dwelling or home unit with a living area under 50m² including balcony and carpark – Must have individual bedroom and bathroom
- Off the Plan purchase property in Category A of high risk postcode register
- Display Homes – Unless purchase is for Owner Occupied purpose and residential valuation as per vacant possession.
- Split contracts where value not allocated to land

If property is a duplex or similar (two properties on one title) whilst not an ineligible security the LVR is restricted to a maximum 80%.

### 11.5 Duplexes/ Multiple dwellings on one property

A duplex, or a property with two dwellings is acceptable security on the condition that the dwellings are on separate titles, or approval to subdivide the property onto separate titles has been obtained but not registered. Council approval document is to be provided in this instance.
In the cases of the subdivision not being lodged at the time of application, the property is to be valued ‘in one line’ and adopted as the security value.

The value of the property based on the subdivision being completed when it is not registered will not be acceptable.

Granny flats do not need to meet this criteria as long as the dwelling is council approved.

<table>
<thead>
<tr>
<th>11.6 High Risk Postcodes and LVR Restrictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased risk has been linked to certain postcodes and to maintain control a register with affected postcodes is available on the Intranet. Restricted postcodes are areas where significant deterioration in credit risk has been observed or is considered to have heightened risk going forward.</td>
</tr>
</tbody>
</table>

The following are the restrictions placed on specific postcodes:

**Category A:**
List of postcodes classified as Volatile or Heightened Risk. A maximum LVR of 70% is to be applied to these postcodes with a maximum individual borrowing limit to MSB of no more than $500k.

**High Density**
List of postcodes where apartments or units are deemed high risk. A maximum LVR of 70% is to be applied to these postcodes.

**Oversupply – House and Land Packages or Apartments**
List of postcodes where a maximum LVR of 70% is to be applied to any house and land packages or for any apartments or Units.

**Refer Appendix B for full list of postcodes**

<table>
<thead>
<tr>
<th>11.7 High Density Apartments</th>
</tr>
</thead>
<tbody>
<tr>
<td>High density is described as any home unit or apartment which is within a unit complex as follows:</td>
</tr>
<tr>
<td>• Melbourne, Brisbane or Sydney – 6 levels or more and/or containing 50 units or more</td>
</tr>
<tr>
<td>• All other areas – 4 levels or more and/or containing 30 units or more</td>
</tr>
</tbody>
</table>
Refer to Appendix A and Appendix B for limitations for maximum LVR

11.8 Residential Unit/Subdivision concentration limits

These limits apply where there are multiple properties within subdivisions, home unit/apartment developments and like properties. There is a distinction in the application of the limits between:

- Existing established completed dwellings;
- New developments, including subdivision home and land packages, and off the plan etc.

The following limits apply across all loan types:

<table>
<thead>
<tr>
<th>Number of Units</th>
<th>Limits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developments of up to 4 units/lots</td>
<td>100%</td>
</tr>
<tr>
<td>Developments of 5 to 20 units/lots</td>
<td>4 units</td>
</tr>
<tr>
<td>Developments of greater than 20 lots</td>
<td>4 units or 15% of the development whichever is greater</td>
</tr>
</tbody>
</table>

11.9 Luxury Property Threshold

The establishment of luxury property thresholds applicable to differing property types and geographic locations manages the concentration risk associated with high value properties.

<table>
<thead>
<tr>
<th>State</th>
<th>Property Value of land, Units, Apartments, Townhouses etc.</th>
<th>Property value of Houses</th>
<th>Maximum LVR if property value above threshold.</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW/Vic</td>
<td>$2.0m</td>
<td>$3.0m</td>
<td>70%</td>
</tr>
<tr>
<td>All other States</td>
<td>$1.25</td>
<td>$2.0m</td>
<td>70%</td>
</tr>
</tbody>
</table>

It is noted that these represent a guide, and would generally relate to the capital cities in each State. Accordingly they may be tempered and reduced based on the specific location, property type and any adverse valuation ratings identified.
11.10 Parental Guarantee Threshold

The maximum loan facility for applications assessed under the Parental Guarantee loan structure is as follows:

<table>
<thead>
<tr>
<th>Location</th>
<th>Maximum Loan</th>
<th>Max LVR</th>
</tr>
</thead>
<tbody>
<tr>
<td>All postcodes</td>
<td>$600,000</td>
<td>80%</td>
</tr>
</tbody>
</table>

*Maximum LVR on actual guarantors property is 70%

Exceptions need to be discussed with your BRM.
11.11 Non-arm’s Length Transaction /Favourable Sales

This relates to the sale of a property where a registered Real Estate agent is not acting for the vendor and where the vendor is selling the property at a discounted price to a friend, associate or family member. In these instances the below changes to our normal loans policy apply:

| Security | Restricted to single occupancy dwelling on one title or vacant land. LVR calculation and LMI premium (where applicable) is to be based on the valuation figure. |
| Deposit/Equity | Where the LVR exceeds 80%, the borrower is to contribute 5% genuine savings based on the purchase price. |
| Additional Requirements | Obtain in writing details of the transaction from the vendor. Ensure the Valuer has noted the purchase price and nature of the transaction. |
| Other | Loan amount is not to exceed 100% of the purchase/contract price where LVR exceeds 80%. |

12. Cash Out Verification Requirements

The following table provides cash out guidelines. If any doubt to the accuracy of the purpose of funds exists, the assessing officer will undertake further enquiry:

<table>
<thead>
<tr>
<th>Amount</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to $50,000</td>
<td>PAYG employees: No details required. Self employed: Full details and breakdown is required. Cash out for working capital is not permitted.</td>
</tr>
<tr>
<td>$50,000 - $350,000*</td>
<td>Applicants are required to provide specific details as to the purpose or use of the funds. This should include a level of granularity to identify the specific purpose, including in the case of ‘future investment’, the nature of the asset class being invested in.</td>
</tr>
<tr>
<td>Over $350,000*</td>
<td>High level detail required in line with the following:</td>
</tr>
</tbody>
</table>
### Mortgage Lending Procedure

|  | • Investment in shares/managed funds – letter from accountant/financial planner stating the purpose/use of funds.  
|  | • Purchase of property – a copy of executed contract of sale, or a statutory declaration from the applicant stating the details of the proposed property purchase i.e. purpose, amount, LVR, anticipated costs.  
|  | Funds to be controlled by applicant.  

* Additional details may be requested on case by case basis.

Please note: If the cash out is for structural work or major renovations to the security property, then procedure relating to construction loans is to apply. The above cash out procedure does not apply to situations where our security position could potentially be compromised by substandard completion of improvements to the property.

In addition, non-structural improvements to an existing residential dwelling held as security (or being taken as security) by MSB where the finance sought is > $100,000 and does not involve council approval then the applicant will be required to sign a declaration stating:

"The cash out funds will be utilised on improvements of a non-structural basis and do not require council approval"

**Please note:** Cash out against land value is not allowed, any proposal will need to be discussed with your BRM.

### 13. Guarantees and Co-Borrowers

If the borrower is an individual, joint borrower or a small business, when assessing whether they can repay the loan MSB will do so by considering the appropriate circumstances reasonably known to us about:

• Their financial position or
13.1 Third Parties

Where reasonable to do so, MSB may rely on the resources of third parties available to the borrower, provided that the third party has a connection to the borrower. For example, where the third party is a related entity of the borrower, (including but not limited to the directors, shareholders, trustees, beneficiaries or related body corporates), or is a partner, joint venturer, or guarantor of the borrower.

We also owe an obligation to any guarantor of the loan to comply with the above paragraph in assessing the borrower’s ability to repay the loan.

If income from an unrelated third party is required to demonstrate servicing, a guarantee from these entities is required to capture the income stream.

Third party income includes the following:

- Company addbacks and undistributed profit.
- Trust Distributions to beneficiaries who are not a party to the loan.
- Individuals whose income we are relying on to demonstrate servicing.

The following table outlines when a third party guarantee is required:

<table>
<thead>
<tr>
<th>Income source</th>
<th>Guarantee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income stated on applicants personal tax returns, or</td>
<td>No guarantee required from related entities.</td>
</tr>
<tr>
<td>Proposed or existing rental in the name of applicants (not trust asset income), or</td>
<td></td>
</tr>
<tr>
<td>Addbacks or undistributed profit from a company or other entity, and the where director(s) are the applicants.</td>
<td></td>
</tr>
<tr>
<td><strong>Trust distributions to adult or company beneficiaries of a Trust who are not a party to the loan.</strong></td>
<td>Guarantee required from the beneficiary/company.</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td><strong>Use of an individual’s income who is not a party to the loan</strong></td>
<td>Guarantee required from the individual.</td>
</tr>
</tbody>
</table>

- Should addbacks and/or income from related entities be used to demonstrate servicing, all loan commitments for those entities are to be included in the servicing calculation to ensure the income relied upon for servicing is available. Refer to ‘9.1 Self-employed Income for parameters.’

**13.2 Co-Borrowers/Joint Borrowers**

The co-borrower/joint borrower must receive a substantial benefit from the loan, MSB will not approve the applicant as a co-borrower/joint borrower unless MSB:

- Has taken reasonable steps to ensure that the co-borrower/joint borrower understands the risks associated with entering into the loan and understand the difference between being a co-borrower/joint borrower and a guarantor;
- Has taken into account the reasons why the applicant wants to be a co-borrower/joint borrower; and
- Are satisfied that the co-borrower/joint borrower is not experiencing financial abuse.

In the following circumstances the co-borrower/joint borrower may end their liability under the loan by giving MSB a written request to do so:

- Where credit has not been provided or relied upon by any co-borrower/joint borrower; or
- For any future advances under the loan, where MSB can terminate any obligation we have to extend further credit to any other co-borrower/joint borrower under the same loan.
The above does not apply to borrowers who are trustees, companies, directors of co-borrower/joint borrower companies or partners in a partnership or joint-venture arrangement.

Co-borrower/joint borrower must receive a substantial benefit from the loan by an equitable interest in assets purchased or repayment of debts or obligations owed by both parties. The lenders must take into account the reasons for accepting a co-borrower/joint borrower, must convey the risks involved with being a co-borrower/joint borrower and also be satisfied the co-borrower/joint borrower is not experiencing any coercion or financial abuse.

A substantial benefit includes where:

- The borrower must acquire a reasonably proportionate legal or equitable interest in assets purchased with the loan funds; or

A reasonable portion of the loans funds are used to repay their debts, or other obligations owed by the borrower.

<table>
<thead>
<tr>
<th>13.3 Guarantors</th>
<th>If the applicant is an individual who gives a guarantee and/or indemnity to secure a loan that MSB give to another individual or small business, and ABA Banking Code applies to the loan, then the following applies to the guarantee and/or indemnity.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Limitation of Guarantee</strong></td>
<td>The Guarantee will be limited to:</td>
</tr>
<tr>
<td></td>
<td>- a specific amount and/ or category of amounts such as all amounts owing under a specific loan, plus other liabilities and amounts as described in the Guarantee (for example, interest and recovery costs); or</td>
</tr>
</tbody>
</table>
the value of a specified property or other assets under a specified mortgage or other security at the time of recovery.

Terms and Conditions of the guarantee
Before accepting a guarantee, MSB will give the guarantor the terms and conditions of the guarantee, which will contain a prominent notice that:

- The guarantor should seek independent legal and financial advice;
- The guarantor can refuse to sign the Guarantee;
- There are financial risks involved;
- The guarantor can limit their liability in accordance with this Code or as allowed by law;
- 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.

MSB will also tell the guarantor:

- about any notice of demand MSB has made on the borrower for the guaranteed loan, or any loan the borrower has (or has had) with us, within the previous 2 years; and
- if any existing loan MSB has given the borrower will be cancelled if the guarantee is not provided.

This paragraph does not apply if the guarantor is a commercial asset financing guarantor, sole director guarantor or trustee guarantor.

Guarantee documents
MSB will 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 in our possession;
• any financial accounts or statement of financial position the borrower has given us in the previous 2 years for the purposes of the guaranteed loan;
• the latest statement of account relating to the loan for a period which a notice of demand was made by us; and
• other information we have about the guaranteed loan that the guarantor reasonably request — but we do not have to give the guarantor MSB’s internal opinions.

This paragraph does not apply if the guarantor is a commercial asset financing guarantor, sole director guarantor or trustee guarantor.

**Director Guarantor**
If the guarantor is a director guarantor (other than a sole director guarantor) MSB will tell the guarantor that they have the right to receive the above documents and that these documents contain important information that may affect their decision to give a guarantee. The guarantor may choose not to receive some or all of the documents and MSB will not influence their choice.

**Acceptance of Guarantee**
MSB will not accept a guarantee from the guarantor until the third day after the guarantor has been given the information provided above.

However, MSB can accept the guarantee earlier if the guarantor:

• has obtained independent legal 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
- the guarantor is a director guarantor and the guarantor chooses to sign and deliver the guarantee earlier. MSB will not influence their choice.

**Signing the Guarantee**

MSB will give the guarantee documents directly to the guarantor or their representative. MSB will not give the guarantee documents to the borrower, or to someone acting on behalf of the borrower, to arrange for the guarantor to sign the guarantee.

If MSB is attending the signing of the guarantee, MSB will ensure that the guarantor sign the Guarantee in the absence of the borrower.

The above does not apply if the guarantor is a commercial asset financing guarantor, sole director guarantor or trustee guarantor.

**Required Warning notice:**

MSB will ensure that a warning notice appears directly above the place where the guarantor signs the guarantee. The warning notice will be substantially in the form required by section 55 of the National Credit Code, and detailed in Form 8 of the National Consumer Credit Protection Regulations 2010 and consistent with this Code.

**During the guarantee**

The guarantor may write to MSB to limit, or further limit the liabilities the guarantor has guaranteed under the guarantee. However, MSB do not have to accept the guarantor’s request if:

- the amount, or nature, of the limit the guarantor requests does not cover the borrower’s existing liability (plus any interest owed, or any fees, or charges that MSB may incur in respect of that liability) under the relevant loan contract at the time;
- MSB are obliged to make further advances to the borrower; or
- MSB would be unable to preserve the current value of an asset which is security for the loan without making further advances.

**Extending the guarantee**
MSB will not extend an existing guarantee if the borrower obtains a new loan, requests an increase in limit or has other changes made to a loan that is covered by an existing guarantee. If this occurs a new guarantee will need to be obtained.

**Withdrawing the guarantee**
The guarantor may, by written notice to MSB, withdraw from the guarantees:

- at any time before MSB provides credit under the relevant loan; or
- after credit is first provided, if the signed version of the relevant loan differs in a material respect from the proposed loan MSB gave the guarantor before the guarantor signed the Guarantee.

This does not apply for any change to the loan described under extending the guarantee however, the guarantor may do so only to the extent of the obligations under the guarantee.

**Ending the guarantee**
The guarantor may end their liability under a guarantee they have given to MSB by paying us the lower of:

- the borrower's outstanding liability, including any future or contingent liability; or
- the amount to which their guarantee of the borrower's liability is limited under the guarantee; or
- making other arrangements MSB agree to in return for releasing them from their guarantee.

**14. Parental Guarantee**
- The following are minimum requirements for parental guarantee loans. Servicing and maximum LVR requirements are to be assessed on guarantors. Refer 11.10 for maximum loan and LVR's.
### 14.1 Parental Guarantee Standards

- Only Parents can be Guarantors under this program
- Guarantors must agree to execute a guarantee limited to an amount which is no less than that required to achieve Maximum LVR not requiring Lenders Mortgage Insurance for applicable property types plus an allowance for costs
- First or Second mortgage security only, accepted over property in the names of the Guarantor(s)
- Term Deposits are also accepted for security with 100% LVR available
- The guarantor(s) must be able to establish their ability to meet minimum servicing capacity requirements as per Mortgage Lending Procedures Section 10, inclusive of a commitment for the guarantee debt.
- Loan/s are to be either a single application in borrowers name(s) (multiple splits allowed) with both properties as security or 2 loans with the main loan secured by the property owned by the borrowers and the guarantor loan secured by borrowers property and guarantors property.
- Principal & Interest repayment basis only. No interest only (construction excepted)
- Limited to purchase of owner occupied property or refinance of existing owner occupied home loan debt. No additional funding allowed.
- Vacant land that is to be used for construction of owner occupied property is also accepted as long as construction to be completed within satisfactory time frame, i.e. 12 months to completion.
- Borrowings limited to coverage of full property purchase price or cost of land purchase and construction plus Stamp Duty & Government costs to a maximum of 105% of borrowers property value
- Borrowers must evidence own funds sufficient to cover remainder of costs to complete
- Borrowers must meet the following minimum employment and servicing requirements
  - Minimum of 6 months with the current employer, Or
  - At least 2 years continuous previous experience within the same industry.
  - Serving requirement - 1.20 times NDI and over
  - No servicing support from guarantors will be accepted
### 15. Construction Loans

MyState will only look to provide finance to construct residential buildings where the construction is underpinned by a fixed price contract with a registered builder.

Building on a 'cost plus' or other basis will not be considered.

The following applies to all construction loans:

- A formal valuation is required initially with an ‘as is’ and ‘on completion’ value.
- The borrower is to contribute their own funds at the initial settlement stage before any loan funds are drawn. Client is to be advised of this at approval.
- Release of funds against unimproved vacant land (prior to construction) must not exceed the approved LVR of the application.
- Buildings under construction are to be covered by insurance and evidence of the cover noting MyState interest as First Mortgagee is to be held. This policy must be obtained before settlement.
- Exception - where there is delay between funding of the land acquisition and the commencement of construction. It is the responsibility of the submitting/processing officer to obtain evidence in these instances.
- Construction is to be completed within 12 months from the first draw down.
- The LVR after a release of a progress payment is not to exceed the approved LVR %.
- Certificate of Currency, Certificate of Occupancy and final valuation confirming all works contracted have been completed by the builder are required prior to the last draw down.
- At final drawdown, the loan will be transferred to an applicable Interest only product for the remainder of the initial 12 months Interest only period and upon expiry will then be transferred to P&I.
### 15.1 Fixed Price Contract

Fixed price construction loans are where a builder is contracted to build and complete the dwelling. The contract will be noted on a standard HIA approved contract.

Applicant is to provide the following additional documents for construction loans with fixed price contracts:

- An executed copy of the building contract
- A copy of council approved plans and specifications – Required prior to first progress payment.

The only exception to not obtaining these documents is in the instance where there is significant time between the settlement of the land component and entering into a contract with a builder.

### 15.2 Progress Payments

Progress payments are:

- To be made in line with the schedule of payments within the fixed price contract.
- If Council Approved Plans were not provided for initial ‘As if Complete’ valuation then ‘Progress’ valuation to be noted that “Council Approved Plans have been received and verified they are in accordance with the draft construction documents supplied and relied upon in the construction ‘As If Complete’ valuation.
- If the valuer notifies that the build progress does not match the initial TBE report the ValFirm will advise and request authorisation to amend original ‘As If Complete’ valuation and then subsequently issue the ‘Progress’ valuation.
- Any variation from the original ‘As If Complete’ valuation will require the loan to be re-assessed by the original lender/underwriter to confirm that changes do not affect the approved loan.

Variations are:

- LVR increases to above 80%
- Variance between valuations of greater than 5%
- To be authorised by the borrower(s) stating that the work has been completed and is to a satisfactory standard of quality. The borrower must have the capacity to inspect, or may delegate to a suitably qualified expert (such as a valuer or quantity surveyor).

External progress payment inspections are to be undertaken in the following circumstances:
Fixed price contract under $750,000 (including FHOG applications)  |  ▪ Base Stage  
|  ▪ On completion  
Fixed price contract over $750,000 (including FHOG applications)  |  ▪ All stages  

**The final progress draw should not be made until the Certificate of Occupancy is obtained.**

A copy of all draw down requests is to be held on the loan file.
The normal benchmark for progress payments is as follows and fixed price contract payments should align with these percentages:

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>5% Deposit</td>
<td></td>
</tr>
<tr>
<td>10% Base</td>
<td></td>
</tr>
<tr>
<td>15% Frame</td>
<td></td>
</tr>
<tr>
<td>35% Lockup</td>
<td></td>
</tr>
<tr>
<td>25% Fixing</td>
<td></td>
</tr>
<tr>
<td>10% Completion</td>
<td></td>
</tr>
</tbody>
</table>

Any significant departure from the above should be discussed with the borrower and the possible implications of not being able to satisfy cost to complete requirements.

Calculations should be completed to ensure there is no shortfall in funds, or issues with the requested LVR, where a building contract is ‘front end loaded’.

Borrowers will typically either need equity in their land, or funds to put towards the construction initially, where the percentages above are higher in the first few stages.
15.3 Borrower/Builder Relationship

Fixed Price contracts where the building entity is a direct relation to the borrower are classified as an Owner Builder. We are no longer able to accept fixed price contracts which are not 'arm’s length'.

Direct relation is defined as:
- The applicant is a director/shareholder of the building entity
- The applicant is part of the immediate family of the ownership of the building entity. Immediate family is defined as:
  - Parent/Grandparent
  - Child
  - Sibling

16. Owner Builders

MyState do not offer construction loans for Owner Builders or construction loans on a ‘cost plus’ basis.

17. Foreign Income Loans

MyState will not accept consumer applications for finance where the applicant is not living and working in Australia or is reliant to any extent on income derived from overseas in servicing assessment.

Loan Maintenance/Variations

MSB allows variations to existing loans for the following:

1. **Variable Rate to Fixed Rate or Fixed Rate to Variable Rate requests:**

   Requests for switches between variable and fixed rates may be processed without referral as long as the original contracted term is not being altered. This is subject to the constraints of IO if applicable.

2. **Principal and Interest to Interest Only or Interest Only to Interest Only requests:**

   A full assessment of affordability over the remaining P&I term is required. (Current term - proposed Interest Only period)

   The following is to be obtained from client:
   - Signed request received from client (MyState document used for this purpose)
- Balance sheet outlining assets and liabilities to be obtained
- Income details to be obtained from client

A servicing calculation is to be undertaken with information provided to ensure client can meet all commitments and loan repayment over the remaining P&I term as per the contract.

<table>
<thead>
<tr>
<th>If...</th>
<th>Then...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Servicing is evident over remaining P &amp; I term including all commitments</td>
<td>Request may be processed without referral</td>
</tr>
<tr>
<td>Servicing cannot be demonstrated over remaining P&amp;I term including all commitments</td>
<td>The request is to be declined</td>
</tr>
</tbody>
</table>

3. **Interest Only to Principal and Interest request**

Requests may be processed without referral as long as the original contracted term is not being altered
# 18. Appendix A – LVR Requirements

<table>
<thead>
<tr>
<th>Loan Purpose</th>
<th>Loan Type</th>
<th>Property Zoning</th>
<th>Interest Only</th>
<th>Max LVR Uninsured</th>
<th>Max LVR inclusive of LMI</th>
<th>Minimum Surplus Required</th>
<th>Min times cover</th>
<th>Max DTI</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Owner Occupied Purchase</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase</td>
<td>Owner Occupied</td>
<td>Residential</td>
<td>No</td>
<td>80%</td>
<td>90%</td>
<td>$50 per month.</td>
<td>1.0 times cover</td>
<td></td>
</tr>
<tr>
<td>Purchase</td>
<td>Owner Occupied</td>
<td>Rural</td>
<td>No</td>
<td>70%</td>
<td>90%</td>
<td>$50 per month.</td>
<td>1.0 times cover</td>
<td></td>
</tr>
<tr>
<td>Purchase</td>
<td>Owner Occupied</td>
<td>Residential</td>
<td>Yes</td>
<td>80%</td>
<td>Not Available above 80% LVR</td>
<td>$200 per month.</td>
<td>1.0 times cover</td>
<td></td>
</tr>
<tr>
<td>Purchase</td>
<td>Owner Occupied</td>
<td>Rural</td>
<td>Yes</td>
<td>70%</td>
<td>Not Available above 80% LVR</td>
<td>$200 per month.</td>
<td>1.0 times cover</td>
<td></td>
</tr>
<tr>
<td>Purchase (NHFIC)</td>
<td>Owner Occupied</td>
<td>Residential</td>
<td>All</td>
<td>N/A</td>
<td>90%</td>
<td>$50 per month.</td>
<td>1.0 times cover</td>
<td></td>
</tr>
<tr>
<td><strong>Owner Occupied refinance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Refinance</td>
<td>Owner Occupied</td>
<td>Residential</td>
<td>No</td>
<td>80%</td>
<td>90%</td>
<td>$50 per month.</td>
<td>1.0 times cover</td>
<td></td>
</tr>
<tr>
<td>Refinance</td>
<td>Owner Occupied</td>
<td>Rural</td>
<td>No</td>
<td>70%</td>
<td>90%</td>
<td>$50 per month.</td>
<td>1.0 times cover</td>
<td></td>
</tr>
<tr>
<td>Refinance</td>
<td>Owner Occupied</td>
<td>Residential</td>
<td>Yes</td>
<td>80%</td>
<td>Not Available above 80% LVR</td>
<td>$200 per month.</td>
<td>1.0 times cover</td>
<td></td>
</tr>
<tr>
<td>Refinance</td>
<td>Owner Occupied</td>
<td>Rural</td>
<td>Yes</td>
<td>70%</td>
<td>Not Available above 80% LVR</td>
<td>$200 per month.</td>
<td>1.0 times cover</td>
<td></td>
</tr>
<tr>
<td>Refinance (NHFIC)</td>
<td>Owner Occupied</td>
<td>Residential</td>
<td>All</td>
<td>N/A</td>
<td>90%</td>
<td>$50 per month.</td>
<td>1.0 times cover</td>
<td></td>
</tr>
<tr>
<td>Loan Purpose</td>
<td>Loan Type</td>
<td>Property Zoning</td>
<td>Interest Only</td>
<td>Max LVR Uninsured</td>
<td>Max LVR inclusive of LMI</td>
<td>Minimum Surplus Required</td>
<td>Min times cover</td>
<td>Max DTI</td>
</tr>
<tr>
<td>-------------------</td>
<td>-----------</td>
<td>-----------------</td>
<td>---------------</td>
<td>-------------------</td>
<td>--------------------------</td>
<td>--------------------------</td>
<td>----------------</td>
<td>--------</td>
</tr>
<tr>
<td><strong>Investment Purchase</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase</td>
<td>Investment</td>
<td>Residential</td>
<td>No</td>
<td>80%</td>
<td>90%</td>
<td>$200 per month</td>
<td>1.0 times cover</td>
<td>8</td>
</tr>
<tr>
<td>Purchase</td>
<td>Investment</td>
<td>Rural</td>
<td>No</td>
<td>70%</td>
<td>90%</td>
<td>$200 per month</td>
<td>1.0 times cover</td>
<td>8</td>
</tr>
<tr>
<td>Purchase</td>
<td>Investment</td>
<td>Residential</td>
<td>Yes</td>
<td>80%</td>
<td>90%</td>
<td>$200 per month</td>
<td>1.0 Times Cover</td>
<td>8</td>
</tr>
<tr>
<td>Purchase</td>
<td>Investment</td>
<td>Rural</td>
<td>Yes</td>
<td>70%</td>
<td>90%</td>
<td>$200 per month</td>
<td>1.0 Times Cover</td>
<td>8</td>
</tr>
<tr>
<td><strong>Investment Refinance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Refinance</td>
<td>Investment</td>
<td>Residential</td>
<td>No</td>
<td>80%</td>
<td>90%</td>
<td>$200 per month</td>
<td>1.0 times cover</td>
<td>8</td>
</tr>
<tr>
<td>Refinance</td>
<td>Investment</td>
<td>Rural</td>
<td>No</td>
<td>70%</td>
<td>90%</td>
<td>$200 per month</td>
<td>1.0 times cover</td>
<td>8</td>
</tr>
<tr>
<td>Refinance</td>
<td>Investment</td>
<td>Residential</td>
<td>Yes</td>
<td>80%</td>
<td>90%</td>
<td>$200 per month</td>
<td>1.0 times cover</td>
<td>8</td>
</tr>
<tr>
<td>Refinance</td>
<td>Investment</td>
<td>Rural</td>
<td>Yes</td>
<td>70%</td>
<td>90%</td>
<td>$200 per month</td>
<td>1.0 times cover</td>
<td>8</td>
</tr>
<tr>
<td><strong>Owner Occupied Construction</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>Owner Occupied</td>
<td>Residential</td>
<td>Yes</td>
<td>80%</td>
<td>90%</td>
<td>$50 per month.</td>
<td>1.0 times cover</td>
<td>8</td>
</tr>
<tr>
<td>Construction</td>
<td>Owner Occupied</td>
<td>Rural</td>
<td>Yes</td>
<td>70%</td>
<td>90%</td>
<td>$50 per month</td>
<td>1.0 times cover</td>
<td>8</td>
</tr>
</tbody>
</table>
## Loan Purpose

<table>
<thead>
<tr>
<th>Loan Purpose</th>
<th>Loan Type</th>
<th>Property Zoning</th>
<th>Interest Only</th>
<th>Max LVR Uninsured</th>
<th>Max LVR inclusive of LMI</th>
<th>Minimum Surplus Required</th>
<th>Min times cover</th>
<th>Max DTI</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment Construction</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>Investment</td>
<td>Residential</td>
<td>Yes</td>
<td>80%</td>
<td>90%</td>
<td>$200 per month</td>
<td>1.0 times cover</td>
<td>8</td>
</tr>
<tr>
<td>Construction</td>
<td>Investment</td>
<td>Rural</td>
<td>Yes</td>
<td>70%</td>
<td>90%</td>
<td>$200 per month</td>
<td>1.0 times cover</td>
<td>8</td>
</tr>
<tr>
<td><strong>Equity Release or Cash Out</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity Release or Cash Out</td>
<td>Owner Occupied</td>
<td>Residential</td>
<td>Yes or No</td>
<td>80%</td>
<td>90%</td>
<td>$50 per month unless LVR &gt; 80% when $200pm required</td>
<td>1.0 times cover</td>
<td>8</td>
</tr>
<tr>
<td>Equity Release or Cash Out</td>
<td>Owner Occupied</td>
<td>Rural</td>
<td>Yes or No</td>
<td>70%</td>
<td>90%</td>
<td>$50 per month unless LVR &gt; 70% when $200pm required</td>
<td>1.0 times cover</td>
<td>8</td>
</tr>
<tr>
<td>Equity Release or Cash Out</td>
<td>Investment</td>
<td>Residential</td>
<td>Yes or No</td>
<td>80%</td>
<td>90%</td>
<td>$200 per month</td>
<td>1.0 times cover</td>
<td>8</td>
</tr>
<tr>
<td>Equity Release or Cash Out</td>
<td>Investment</td>
<td>Rural</td>
<td>Yes or No</td>
<td>70%</td>
<td>90%</td>
<td>$200 per month</td>
<td>1.0 times cover</td>
<td>8</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guarantor Loan</td>
<td>Parental Guarantee Loan</td>
<td>Residential/Rural</td>
<td>No</td>
<td>70%</td>
<td>Not available above 70% LVR</td>
<td>$50 per month</td>
<td>1.0 times cover</td>
<td>8</td>
</tr>
<tr>
<td>Serviced Apartment</td>
<td>(including time share)</td>
<td>Residential</td>
<td>No</td>
<td>50%</td>
<td>Not available above 50% LVR</td>
<td>$50 per month</td>
<td>1.0 times cover</td>
<td>8</td>
</tr>
<tr>
<td>NRAS</td>
<td>Investment</td>
<td>Residential</td>
<td>No</td>
<td>50%</td>
<td>Not available above 50% LVR</td>
<td>$50 per month</td>
<td>1.0 times cover</td>
<td>8</td>
</tr>
</tbody>
</table>
# MyState Bank Mortgage Lending Procedure

## High Risk Postcodes - Refer Appendix B

<table>
<thead>
<tr>
<th>Loan Purpose</th>
<th>Loan Type</th>
<th>Property Zoning</th>
<th>Interest Only</th>
<th>Max LVR Uninsured</th>
<th>Max LVR inclusive of LMI</th>
<th>Minimum Surplus Required</th>
<th>Min times cover</th>
<th>Max DTI</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Category A</strong></td>
<td>Owner Occupied</td>
<td>Residential</td>
<td>Yes or No</td>
<td>70%</td>
<td>90% (Maximum exposure of $500K)</td>
<td>$50 per month</td>
<td>1.0 times cover</td>
<td>8</td>
</tr>
<tr>
<td><strong>Category A</strong></td>
<td>Investment</td>
<td>Residential</td>
<td>Yes or No</td>
<td>70%</td>
<td>90% (Maximum exposure of $500K)</td>
<td>$200 per month</td>
<td>1.0 times cover</td>
<td>8</td>
</tr>
<tr>
<td><strong>High Density - Apartment</strong></td>
<td>Owner Occupied</td>
<td>Residential</td>
<td>Yes or No</td>
<td>70%</td>
<td>Max 80% LVR for new units. Max 90% LVR existing units and House and Land</td>
<td>$50 per month</td>
<td>1.0 times cover</td>
<td>8</td>
</tr>
<tr>
<td><strong>High Density - Apartment</strong></td>
<td>Investment</td>
<td>Residential</td>
<td>Yes or No</td>
<td>70%</td>
<td>Max 80% LVR for new units. Max 90% LVR existing units and House and Land</td>
<td>$200 per month</td>
<td>1.0 times cover</td>
<td>8</td>
</tr>
<tr>
<td><strong>Oversupply - House and Land/Apartment</strong></td>
<td>Owner Occupied</td>
<td>Residential</td>
<td>Yes or No</td>
<td>70%</td>
<td>Max 80% LVR for new units. Max 90% LVR existing units and House and Land</td>
<td>$50 per month</td>
<td>1.0 times cover</td>
<td>8</td>
</tr>
<tr>
<td><strong>Oversupply - House and Land/Apartment</strong></td>
<td>Investment</td>
<td>Residential</td>
<td>Yes or No</td>
<td>70%</td>
<td>Max 80% LVR for new units. Max 90% LVR existing units and House and Land</td>
<td>$200 per month</td>
<td>1.0 times cover</td>
<td>8</td>
</tr>
</tbody>
</table>

## Off the Plan Purchases

<table>
<thead>
<tr>
<th>Category A High Risk Postcode</th>
<th>Owner Occupied</th>
<th>Residential</th>
<th>Interest Only</th>
<th>Max LVR Uninsured</th>
<th>Max LVR inclusive of LMI</th>
<th>Minimum Surplus Required</th>
<th>Min times cover</th>
<th>Max DTI</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>All other off the plan</strong></td>
<td>Owner Occupied</td>
<td>Yes</td>
<td>80%</td>
<td>90%</td>
<td>$50 per month</td>
<td>1.0 times cover</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td><strong>All other off the plan</strong></td>
<td>Owner Occupied</td>
<td>Yes</td>
<td>80%</td>
<td>Not Available above 80% LVR</td>
<td>$200 per month</td>
<td>1.2 Times Cover</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td><strong>All other off the plan</strong></td>
<td>Investment</td>
<td>No</td>
<td>80%</td>
<td>90%</td>
<td>$200 per month</td>
<td>1.2 Times Cover</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td><strong>All other off the plan</strong></td>
<td>Investment</td>
<td>Yes</td>
<td>80%</td>
<td>90%</td>
<td>$200 per month</td>
<td>1.2 Times Cover</td>
<td>8</td>
<td></td>
</tr>
</tbody>
</table>
19. Appendix B – High Risk Postcode Register

<table>
<thead>
<tr>
<th>Category A</th>
</tr>
</thead>
<tbody>
<tr>
<td>2834 2835 2880 4184 4413 4415 4455 4581 4615 4671</td>
</tr>
<tr>
<td>4709 4717 4718 4720 4721 4723 4742 4743 4744 4745</td>
</tr>
<tr>
<td>4746 4801 4803 4804 4805 4820 4825 4874 5221 5601</td>
</tr>
<tr>
<td>5722 5723 5725 6225 6254 6390 6429 6430 6432 6438</td>
</tr>
<tr>
<td>6440 6442 6443 6620 6642 6707 6710 6713 6714 6716</td>
</tr>
<tr>
<td>6718 6720 6721 6722 6728 6743 6751 6753 6754 6758</td>
</tr>
<tr>
<td>6760 6762 6770 6798 6799 7255 7265 7467 7469 7470</td>
</tr>
</tbody>
</table>

** If the property is located on an island without sealed road connection to the mainland there will be a 70% max LVR and must be referred to DLA4 for approval prior to acceptance.

<table>
<thead>
<tr>
<th>High Density Postcodes</th>
</tr>
</thead>
<tbody>
<tr>
<td>0800 2017 2018 2020 2077 2113 2121 2127 2145 2150</td>
</tr>
<tr>
<td>2155 2170 2250 2750 3000 3003 3006 3008 4000 4006</td>
</tr>
<tr>
<td>4101 4209 4215 4217 4218 5000 6000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Oversupply – House and Land Packages and Apartments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2155 2762 3030 3128 4209 6171 6210</td>
</tr>
</tbody>
</table>
20. **Appendix C – Identification Requirements**

The minimum individual customer identification requirements that must be collected are outlined below:

1 document from the Category A list: or

**Both:**
1 document from the Category B list; and
1 document from the Category C list: or

**Both:**
1 document from the Category D list; and
1 Document from either the Category B or C list.

**Category A Documents**

- A current drivers licence or permit issued by an Australian State or Territory that contains the person’s photograph and full name;
- A current passport issued by the Australian Government (or one that has expired within the last 2 years);
- A card issued by an Australian State or Territory for the purpose of proving the person’s age, which contains a photograph of the person whose name the document is issued and full name; or
- A current passport or similar document issued for the purpose of international travel, that:
  - Contains a photograph and the signature of the person whose name the document is issued;
  - Is issued by a foreign government, the United Nations or an agency of the United States; and
  - If it is written in a language that is not understood by the person carrying out the verification, is accompanied by an English translation prepared by an accredited translator

- When accepting foreign passports, also require a document which provides evidence of the customer’s current residential address from either photographic or non-photographic acceptable documents such as those listed under categories B & C
Category B Documents

- Birth certificate or birth extract issued by an Australian State or Territory;
- A pension card issued by Centrelink that entitles the person in whose name the card is issued, to financial benefits;
- An electoral enrolment card or other evidence of enrolment not more than 2 years old;
- A current Medicare card, Department of Veteran's Affairs entitlement card or any other current entitlement card issued by the Commonwealth Government;
- A document held by MyState conferring an interest by way of security over property of the Customer;
- Records relating to a mortgage or other instrument of security granted to the Customer by a Financial Institution other than us; or
- Records held under law relating to land titles.

Category C Documents

- A notice issued to an individual by the Australian Government, a State or Territory within the last 12 months that contains the name of the individual and their residential address and records the provision of financial benefits to the individual;
- A notice of assessment issued to an individual by the Australian Taxation Office within the last 12 months that contains the name of the individual and their residential address; or
- A notice that was issued to an individual by a local government body or utilities provider within the preceding three months that contains the name of the individual and their residential address and records the provision of services to that address or to that person.

Category D Documents

- A current photo Firearms Licence issued by an Australian State or Commonwealth Authority
- A Current Security Industry or Commercial Agents and Private Inquiry Agents operator licence issued by an Australian State or Commonwealth Authority.
- A current photo identity card for an Australian Police Force Officer or Australian Defence Force Member
- A current consular photo identity card issued by the Australian Department of Foreign Affairs and Trade.
These lists are not exhaustive. Other documents verifying a customer’s identity may be considered if we determine that those documents are reliable and independent. Please refer to our Compliance Area if you require guidance. If any of the documents are in a previous name, a customer must provide an additional document that shows how their name was changed, issued and recorded by an Australian State or territory (for example a Certificate of Marriage recorded by the registry of Births, Deaths and Marriages).

22 Appendix D – Covid-19 affected industries and Businesses restricted from opening.

- Covid-19 affected industries:
  - Tourism and travel relates services
  - Hospitality including accommodation, pubs, taverns, bars cafes, take-away food and restaurants
  - Event Planning
  - Entertainment including sporting activities, motion pictures and videos and performing arts activities
  - Retail sales sector including department stores, clothing, furniture, motor vehicles and recreational goods
  - Real estate services
  - Manufacturing industries including motor vehicles and furniture
  - Spas / salons

Businesses restricted from opening:
### Food and drink

<table>
<thead>
<tr>
<th>Business, premises or place</th>
<th>Exceptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cafes</td>
<td>Takeaway service and home delivery</td>
</tr>
<tr>
<td></td>
<td>Cafés or canteens at hospitals, care homes or schools; prison and military canteens; services providing food or drink to the homeless, workplace canteens can provide takeaway</td>
</tr>
<tr>
<td>Food courts</td>
<td>Delivery and takeaway can remain operational</td>
</tr>
</tbody>
</table>

### Retail

<table>
<thead>
<tr>
<th>Business, premises or place</th>
<th>Exceptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auction houses</td>
<td>Private appointments for inspection</td>
</tr>
<tr>
<td>Real estate auctions and open house inspections</td>
<td></td>
</tr>
<tr>
<td>Outdoor and indoor markets will be a decision for each state and territory</td>
<td>Food markets will continue to operate in all states and territories</td>
</tr>
</tbody>
</table>

### Beauty and personal care services

<table>
<thead>
<tr>
<th>Business, premises or place</th>
<th>Exceptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hairdressers and barber shops</td>
<td>1 person per 4 square metre rule applies in the premises</td>
</tr>
<tr>
<td>Beauty therapy, tanning, waxing, nail salons, tattoo parlours</td>
<td></td>
</tr>
<tr>
<td>Spas and massage parlours</td>
<td></td>
</tr>
<tr>
<td>Entertainment venues</td>
<td>Exceptions</td>
</tr>
<tr>
<td>----------------------</td>
<td>------------</td>
</tr>
<tr>
<td><strong>Business, premises or place</strong></td>
<td><strong>Exceptions</strong></td>
</tr>
<tr>
<td>Cinemas, nightclubs</td>
<td></td>
</tr>
<tr>
<td>Casinos, gaming or gambling venues</td>
<td></td>
</tr>
<tr>
<td>Strip clubs, brothels and sex on premises venues</td>
<td></td>
</tr>
<tr>
<td>Concert venues, theatre, arenas, auditoriums, stadiums</td>
<td>Live streaming of a performance by a small group could be permissible with social distancing observed</td>
</tr>
<tr>
<td>Amusement parks and arcades</td>
<td></td>
</tr>
<tr>
<td>Play centres (indoor and outdoor)</td>
<td></td>
</tr>
<tr>
<td><strong>Leisure and recreation</strong></td>
<td><strong>Exceptions</strong></td>
</tr>
<tr>
<td><strong>Business, premises or place</strong></td>
<td><strong>Exceptions</strong></td>
</tr>
<tr>
<td>Community and recreation centres</td>
<td>Facilities may remain open for the purpose of hosting essential voluntary or public services, such as food banks or homeless services.</td>
</tr>
<tr>
<td>Health clubs, fitness centres, yoga, barre and spin facilities, saunas, bathhouses and wellness centres</td>
<td></td>
</tr>
<tr>
<td>Boot camps, personal training operating outside and inside</td>
<td>For outside events, limited to groups of no more than 10 people and social distancing must be exercised.</td>
</tr>
<tr>
<td>Social sporting-based activities</td>
<td></td>
</tr>
<tr>
<td>Leisure and recreation</td>
<td></td>
</tr>
<tr>
<td>------------------------</td>
<td>---</td>
</tr>
<tr>
<td><strong>Business, premises or place</strong></td>
<td><strong>Exceptions</strong></td>
</tr>
<tr>
<td>Swimming pools</td>
<td></td>
</tr>
<tr>
<td>Residential facilities</td>
<td></td>
</tr>
<tr>
<td><strong>Business, premises or place</strong></td>
<td><strong>Exceptions</strong></td>
</tr>
<tr>
<td>Hotels, hostels, bed and breakfasts, campsites, caravan parks, and boarding houses will be a decision for each state and territory</td>
<td>Excluding permanent residents and workers.</td>
</tr>
<tr>
<td>Outdoor recreation</td>
<td></td>
</tr>
<tr>
<td><strong>Business, premises or place</strong></td>
<td><strong>Exceptions</strong></td>
</tr>
<tr>
<td>Caravan and camping parks will be a decision for each state and territory</td>
<td>Where people live permanently in caravan parks or are staying in caravan parks as interim abodes where their primary residence is not available, they may continue to do so.</td>
</tr>
<tr>
<td>Non-residential institutions</td>
<td></td>
</tr>
<tr>
<td><strong>Business, premises or place</strong></td>
<td><strong>Exceptions</strong></td>
</tr>
<tr>
<td>Galleries, museums, national institutions and historic sites</td>
<td></td>
</tr>
<tr>
<td>Libraries, community centres, and youth centres</td>
<td></td>
</tr>
</tbody>
</table>
### Non-residential institutions

<table>
<thead>
<tr>
<th>Business, premises or place</th>
<th>Exceptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local government non-essential facilities and services (such as libraries and pools)</td>
<td>Weddings with a maximum attendance of no more than 5 people and where the 1 person per 4 square metre rule applies.</td>
</tr>
<tr>
<td>Community facilities (such as community halls, clubs, RSLs, PCYCs);</td>
<td>Funerals attended by a maximum of no more than 10 people and where the 1 person per 4 square metre rule applies.</td>
</tr>
</tbody>
</table>

#### 23. Appendix E – First Home Loan Deposit Scheme

**FHLDS update**

The First Home Loan Deposit Scheme places with the non-major lenders have now been reserved for the 2020-21 financial year. Please note: Scheme places may become available again when they expire or borrowers withdraw from the Scheme. The Scheme portal is regularly updated with recovered FHLDS places as they become available.

The Australian Government has introduced the First Home Loan Deposit Scheme to support first home buyers to purchase their first home sooner. It does this by providing a guarantee that will allow eligible first home buyers on low and middle incomes to purchase a home with a deposit of as little as 5 per cent without needing to pay lenders mortgage insurance.
**How the Scheme works:**
Eligible first home buyers are able to obtain an eligible loan to purchase an eligible property through a participating lender with up to 15% of the property value guaranteed by NHFIC.

MyState has been approved as a panel lender under the National Housing Finance and Investment Corporation (NHFIC) First Home Owner Government Scheme. A lender is approved by the NHFIC (as an eligible lender) for the financial year in which the NHFIC approves the issue of the guarantee.

MyState mortgage procedure is to be used for assessment of serviceability and approval of all loans that meet the scheme eligibility guidelines.

**Eligible First Home Buyers:**
The First Home Loan Deposit Scheme is only available where at the time the home loan agreement is entered into the applicants meet the following:

1. **Must be an Australian citizen aged 18 years or older at the time of entering into the loan agreement.**
   - Proof of Citizenship to be provided using following documentation:
     - If born in Australia:
       - (1) an Australian Birth Certificate issued by the Registry of Births, Deaths & Marriages, or
       - (2) a current Australian passport.
     - If born overseas:
       - (1) an Australian citizenship certificate, or
       - (2) a current Australian passport.

2. **Each purchaser must be an eligible first home buyer. A purchaser is not an eligible first home buyer if at the time of entering into the loan they have ever owned an interest in Australian land comprising the following:**
   - A freehold interest in real property in Australia
   - An interest in a lease of land in Australia with a term of 50 years (or more), or
   - A company title interest in land in Australia.

3. **If the property is to be purchased by two people as joint applicants, the joint applicants must be a couple that is legally married or in a de facto relationship.**

4. **Applicants must satisfy an income threshold test at the time of entering into a loan agreement:**
   - **Singles** – Taxable income for the previous financial year must not be more than $125,000.
• Couples – Combined taxable income for the previous income year must not be more than $200,000. (Taxable income refers to the taxable income assessed in the income year preceding the income year in which the loan is entered into)
• The income threshold applies only at the time of entering into the loan and recognises that future increases in income during the term of the loan will not affect the provision of a guarantee that is already issued.

5. Must have a deposit of at least 5% and up to (but less than) 20% of the Value of the property being acquired. The 5% deposit must be from genuine savings and will need to be verified. The 5% genuine savings must be utilised in the transaction for favourable purchases of property.

As per mortgage policy, genuine savings can be from the following sources:

• Funds held or accumulated in savings accounts for three months or more
• First Home Saver Account or First Home Super Saver Scheme (initiative by the Australian Government)
• Term deposits held for three months or more
• Shares held for no less than the last three months
• Accelerated loan repayments – where savings have been sacrificed by making accelerated loan repayments over the last three months, the amount of the excess repayments, can be accepted in lieu of genuine savings.

If the applicant is unable to show genuine savings but they are renting and can show 3 months rental ledger proving rent paid then the following can be accepted as genuine savings to contribute to the 5% savings/deposit requirement:

• Lump sum payments such as bonuses, tax refunds and proceeds from sale of assets, can be accepted
• First Home Owner Grants (FHOGs) can be accepted
• Gifts from family provided a stat dec is provided detailing the funds are not repayable.

Please note:

• Funds cannot be borrowed (i.e. personal loans, credit cards or loans from family members)
• All funds required to complete the purchase transaction (deposit plus settlement disbursements minus the FHOG), must be evident at the time of application.

6. The First Home Loan Deposit Scheme is not available to more than two joint applicants.
7. MyState current policies for LVR acceptance is to be followed and if property is unable to be accepted at 80% (such as rural, high risk postcodes, etc.) then application is unable to proceed unless alternative property is provided.
**Eligible Loans – General Criteria**

An eligible loan can be issued to ‘Eligible First Home Buyers’ and must satisfy the requirements of the general criteria or the refinancing criteria. It will also be required to meet any further criteria or processes established by the NHFIC.

An eligible loan must have the following features at the time it is entered into:

1. **the loan must be for the purchase of an eligible residential property;**
   - An existing house, townhouse or apartment;
   - A House and Land Package;
   - Land together with a separate contract to build a home; or
   - An Off-the-Plan apartment or townhouse

   a. **Established Dwelling means a Residential Property which:**
      - may be legally occupied as at the Loan Settlement Date; and
      - is purchased under a contract of sale dated no earlier than 1 January 2020,

      and, to avoid doubt, does not include any Residential Property that is purchased under an Off-the-Plan Arrangement.

   b. **New-Build Dwelling means a Residential Property that is to be newly constructed as part of:**
      - a House and Land Package;
      - a Land and Separate Contract to Build Home; or
      - an Off-the-Plan Arrangement.

   c. **House and Land Package means a house and land package relating to Residential Property where, prior to the Loan Settlement Date, the Eligible Borrower has entered into:**
      - a contract of sale for the purchase of the land upon which the Residential Property will be affixed; and
      - an Eligible Building Contract (either as part of the contract of sale for the purchase of the relevant land or as a separate stand-alone contract),

      and the contract of sale and Eligible Building Contract are entered into by the Eligible Borrower with the same counterparty (or counterparties from the same corporate group).
d. **Land and Separate Contract to Build Home** means an arrangement to purchase land and separate contract to build a home relating to Residential Property where the Eligible Borrower has:
   - purchased the relevant land on or after the Loan Settlement Date under a contract of sale; and
   - entered into an Eligible Building Contract on or prior to the Loan Settlement Date,

   in each case, with such contracts dated no earlier than 1 January 2020 and each being entered into by the Eligible Borrower with different counterparties.

e. **Off-the-Plan Arrangement** means an ‘off-the-plan’ arrangement for the purchase of Residential Property, provided that:
   - the contract of sale is entered into before the Loan Settlement Date; and
   - the Loan Settlement Date will occur within 90 days of the date of a Guarantee Certificate being issued under the Scheme.

f. **Loan Settlement Date** means, for the purchase of an Eligible Property that is:
   - an Established Dwelling or a New-Build Dwelling under an Off-the-Plan Arrangement, the date on which the loan is drawn to purchase that property; or
   - a New-Build Dwelling under either a House and Land Package or a Land and Separate Contract to Build Home, the first date on which funds are advanced under the loan in connection with that arrangement.

g. **Eligible Building Contract** means a building contract:
   - with a licensed or registered builder;
   - that specifies a contract sum in respect of the construction of the Residential Property; and
   - that requires the builder to:
     - commence construction within 26 weeks of the Loan Settlement Date; and
     - complete construction and procure the issuance of an occupancy certificate within 24 months of the Loan Settlement Date.

   and, to avoid doubt, ‘owner builder’ contracts are not eligible building contracts for these purposes.

2. the value of the residential property at the time the loan is entered into must not exceed the relevant price cap in the area where the property is located;

3. The residential property acquired through the loan must be for owner occupation. *(An investment loan for the purchase of an investment property is not an eligible loan under the First Home Loan Deposit Scheme)*;

4. The loan-to-value ratio of the loan must be between 80 and 90 per cent.
5. The loan must require regular repayments of the principal for the full period of the loan;
6. Where the loan relates to the purchase of an interest in land on which a dwelling is to be built, a loan may be an eligible loan where it allows interest-only payments in the period of construction of the new dwelling. (This period is provided in the terms of the loan agreement that the lender enters into with the borrower. At the conclusion of the construction period, the terms of the loan agreement must require repayments of the principal of the loan and the payment of interest for the remaining period of the agreement);
7. Must move into the property within 6 months from the date of settlement or, if later, the date an occupancy certificate is issued;
8. Reside in the Eligible Property for so long as the relevant Eligible Loan is a Scheme-Backed Loan; and
9. The loan must have a term of no more than 30 years.

Eligible loans – Refinanced Guaranteed Loans
A loan made by an approved lender is eligible if its sole purpose is to refinance the debt owed under an existing loan that was guaranteed under the First Home Loan Deposit Scheme immediately prior to refinancing.

This allows loans subject to a guarantee under the First Home Loan Deposit Scheme to be refinanced with other eligible lenders, promoting consumer choice and competition, despite the new loan otherwise not being an eligible loan at the time it is entered into.

(For example, the new loan can be subject to a guarantee under the First Home Loan Deposit Scheme despite, in later income years, the owner’s taxable income exceeding the income threshold or they have also acquired an investment property.)

To be eligible, the new loan must be for the refinancing of an existing guaranteed loan. The new loan cannot be greater than the remaining principal amount owing on the refinanced loan. In addition, the guarantee on the original loan must be in force at the time of the refinancing and that guarantee must not have been subject to a claim.

Price cap for the purchase or construction of a modest home
To ensure the First Home Loan Deposit Scheme is only available for the purchase of a modest home, or the purchase of land and construction of a modest home in Australia, dwelling price caps apply on a regional basis.
The following dwelling price caps apply to restrict the value of properties that may be purchased, or the on-completion value of new residential premises, under the First Home Loan Deposit Scheme:

<table>
<thead>
<tr>
<th>Item</th>
<th>Area Price</th>
<th>Price cap</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Australian Capital Territory</td>
<td>$500,000</td>
</tr>
<tr>
<td>2</td>
<td>New South Wales—capital city and regional centre</td>
<td>$700,000</td>
</tr>
<tr>
<td>3</td>
<td>New South Wales—other (including Jervis Bay and Norfolk Island)</td>
<td>$450,000</td>
</tr>
<tr>
<td>4</td>
<td>Victoria—capital city and regional centre</td>
<td>$600,000</td>
</tr>
<tr>
<td>5</td>
<td>Victoria—other</td>
<td>$375,000</td>
</tr>
<tr>
<td>6</td>
<td>Queensland—capital city and regional centre</td>
<td>$475,000</td>
</tr>
<tr>
<td>7</td>
<td>Queensland—other</td>
<td>$400,000</td>
</tr>
<tr>
<td>8</td>
<td>Northern Territory</td>
<td>$375,000</td>
</tr>
<tr>
<td>9</td>
<td>South Australia—capital city</td>
<td>$400,000</td>
</tr>
<tr>
<td>10</td>
<td>South Australia—other</td>
<td>$250,000</td>
</tr>
<tr>
<td>11</td>
<td>Western Australia—capital city</td>
<td>$400,000</td>
</tr>
<tr>
<td>12</td>
<td>Western Australia—other (including Christmas Island and Cocos (Keeling) Islands)</td>
<td>$300,000</td>
</tr>
<tr>
<td>13</td>
<td>Tasmania—capital city</td>
<td>$400,000</td>
</tr>
<tr>
<td>14</td>
<td>Tasmania—other</td>
<td>$300,000</td>
</tr>
</tbody>
</table>

The following regional centres are also included in the first category and property purchased in these areas is subject to the higher price cap applying in the relevant State:

- Gold Coast;
- Sunshine Coast;
- Newcastle and Lake Macquarie;
- Illawarra;
- Geelong.

The Australian Capital Territory and the Northern Territory are not divided into categories. A single price cap applies to all property purchased within each territory.
**Price Cap Area Identification**

To confirm the price cap for the property to be purchased the following link is to be used and the suburb is to be entered.


**Application process**

When application is received for processing the following is required for application to proceed:

- Verification checklist
- Last year’s taxation notice of assessment to confirm previous years income
- First Home Owner Buyers Declaration form
- Confirmation documents for proof of Australian Citizenship as per scheme

**Underwriter is to confirm the following:**

- Declaration has been signed by all applicants
- NOA provides verification that income meets acceptable levels
- Genuine savings of 5% documentation provided and verified by bank statement
- LVR meets scheme guidelines
- Purchase price aligns with the maximum price cap for the requested suburb? (verified to NHFIC Website)

**Final Assessment**

After completion of the assessment and application has been approved the following exception codes are required to be overridden by DLA2:

- SB1 – This code is just to be used for NHFIC loans and is mandatory to be included and overridden as will be utilised for reporting to appropriate regulators and NHFIC
- LMI not chosen on loan over 80% LVR – This will automatically be produced by LendFast and will require an override to continue.

*Please note: The completion of the SB1 exception code is mandatory and if not completed will be audited against the approving underwriter.*