

# Lending Policy Guide for Introducers

July 2011



## INTRODUCTION

### Overview Mortgage Introducer Reference Manual

This manual outlines lending policy guidelines which are the general underwriting standards that Police & Nurses looks to achieve for the origination of all mortgage lending proposals.

These standards are under constant review. Updates and amendments to the manual will be made available via the Police & Nurses broker website and advice of these amendments will be provided via Police & Nurses email system via your aggregator.

### Lending policy guidelines

In some instances when the loan application appears to fall within Police & Nurses policy guidelines the loan could be declined. The reasons for this may be due to current market trends, information which has come to hand regarding the applicant or the security property or any other valid reason. A valid reason for the decline will be advised in all circumstances.

Please be aware that Police & Nurses reserves the right to seek further or alternate supporting information on a case by case basis.

### Applications outside lending policy guidelines

Loan applications outside of policy guidelines may be considered on an individual basis. If a loan application falls outside of policy guidelines in one or more areas it is important the application has strengths in other areas to compensate. Important areas of the loan application are:

- security
- serviceability
- stability of applicants
- asset position of applicants

Proposals that don't meet lending policy will only be considered where:

- there are compensating features, or
- substantiated reasons for not being able to meet that underwriting standard can be provided.

Police & Nurses may choose to approve, decline or propose an amendment to the proposed application.

If a loan has negative characteristics which are not specifically referenced in this manual this should be referred to your Business Development Manager.

<b>Definitions</b>	
ACL	Australian Credit Licence
ADI	Approved Deposit taking Institutions
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities & Investments Commission
BDM	Business Development Manager
'Credit Society' or 'the Society'	Police & Nurses Credit Society Limited
EDR	External Dispute Resolution Scheme
FIRB	Foreign Investment Review Board
LMI	Lenders Mortgage Insurance
LVR	Loan to Value Ratio
NCA	National Consumer Credit Protection Act 2009 (includes National Credit Code and Responsible Lending provisions)
NDI	Net Disposable Income
'Policy' or 'the Policy'	Police & Nurses Credit Society Lending Policy
RL	Responsible Lending (from NCA, Responsible Lending provisions)

## Document history

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## **Section 1 - GENERAL POLICY & CODE OF CONDUCT**

### **1.1 PURPOSE OF THIS DOCUMENT**

This document is provided as a guide to the Societies Lending Policy and is offered to third party originators to ensure compliance with the policy.

The numbering used is that of the Societies Lending Policy and is maintained for consistency. Policies not relevant to mortgage secured application origination have been removed, this is the cause of the non linear points.

The policy guides contained in this document provide the basis on which a loan application should be made. They remain confidential and must not be made accessible to any outside organisation or individual without authorisation of the Society.

### **1.2 APRA**

The policy guides contained in this Manual comply with APRA Prudential Standards that apply to an ADI. In the event of any conflict in meaning or interpretation, the requirements of the APRA Prudential Standard will prevail.

### **1.3 LEGISLATION**

All aspects of the Society's lending policy and extracts contained within this document are compliant with legislation.

It is also the responsibility of all originators to be aware of the provisions of the various consumer protections acts. Acts of particular relevance include:

- Consumer Credit Code
- Privacy Act
- Finance Brokers Act
- Trade Practices Act, and
- National Consumer Credit Protection Act.

### **1.6 CHANGES TO MANUAL**

The Society reserves the right to make changes to this document, changes may be made in conjunction with Police & Nurses Lending Policy as part of an annual review or required ad hoc changes. Where there is a conflict in meaning or interpretation, the requirements of the Police & Nurses Lending Policy will prevail.

## Section 2 - LENDING ORIGINATION

### 2.1 QUALITY OF BUSINESS

The Society requires prudent credit standards be maintained at all times ensuring that new lending facilities are of a high quality. Originators are responsible, when submitting each application, to be thoroughly satisfied as to:

- a) the character and integrity of applicant/s
- b) capacity of applicant/s to repay the facility
- c) the financial position of the applicant via an asset and liability statement
- d) past credit history of applicant/s
- e) the value of the security to be taken
- f) the purpose of the loan and term of the loan, and
- g) the applicant's employment history and residential status.

### 2.2 GROUP EXPOSURE

Group exposures must be identified when processing new mortgage secured loan applications from either individuals or corporate entities to determine the overall level of credit risk to the Society on a group rather than individual basis.

The exposure of a particular client 'group' is to be calculated by considering the following factors, which could provide a direct link between borrowers:

- co-borrowers
- secured against a common security
- repayments from a common source of funds
- business partners
- spouses, parents or children
- trustee/beneficiaries of same Family Trust
- unit holders in same Unit Trust
- common ownership or management of private companies
- cross guarantees linking borrowers
- wholly-owned or partly-owned subsidiary companies (generally, at least 50% shareholding)
- controlling interests by parent companies or individuals
- ability to exercise control, and
- financial interdependency.

### 2.3 ELIGIBLE BORROWERS

A borrower must be a member or customer of Police & Nurses Credit Society in terms of the Constitution of the Society. Furthermore, Borrowers shall satisfy the Society's criteria with respect to integrity, creditworthiness and repayment ability as well as providing potential for cross selling of other products and services.

Details of ineligible borrowers are contained in section 2.4.

Police & Nurses Credit Society provide lending facilities through its Retail and Property Finance distribution channels. The types of eligible borrower entities are outlined on the following page.

### 2.3.2 Retail (home lending products)

Home lending products will be provided to:

- a) individual borrowers
- b) proprietary companies, and
- c) family trusts.

## 2.4 INELIGIBLE BORROWERS

The Society will not lend to applicants who have a diminished legal obligation which can render the loan contract unenforceable.

Categories of applicants who may have a diminished legal obligation include:

- minors
- undischarged bankrupts (see note below)
- convicted persons
- the insane
- the intoxicated or drug affected, and
- applicants under Schemes of Arrangement (see note below).

## 2.5 NON-RESIDENTS

The Society will accept loan applications from members or prospective members resident in States and Territories of Australia. Applications from non-residents will be accepted subject to prudent assessment criteria and relevant Foreign Investment Review Board (FIRB) approvals.

The following conditions relate to applications where all applicants are classified as non-resident or temporary resident. If at least one applicant is an Australian citizen then exceptions can be made.

### 2.5.1 Non-residents minimum standards

Non-residents may comprise either:

1. Australian residents living overseas
2. overseas residents working or investing in Australia

The Society's standard credit assessment criteria will apply to non-residents with the following additional requirements:

#### Home Lending

- a) maximum loan to valuation ratio of 70%
- b) purpose must be for owner occupation (the intended dwelling), other than Australian residents living overseas
- c) 90% of overseas income converted to Australian dollars. Income evidence must be translated into English, and
- d) where applicable FIRB approval to be confirmed.

### 2.5.2 Temporary residents minimum standards

Temporary Residents are classified as overseas residents working in Australia under a temporary working visa. Applications with Temporary Residents must capture the intentions of the applicants, this may be the intention to clear the liability within the term of the visa, to reside in the property pending a permanent visa application, or, sale of the property on completion of visa term.

In all circumstances the applicants must demonstrate the ability to meet their intended actions.

The Society's standard credit assessment criteria will apply to temporary residents with the following additional requirements:

#### Home Lending

- a) maximum Loan to valuation ratio of 70%
- b) purpose must be for owner occupation (the intended dwelling), and
- c) where applicable FIRB approval to be confirmed.

## **2.6 FIRST HOME OWNERS**

The Society will accept applications from first home owners only against specific products (as specified within the product profiles) up to a maximum term of 30 years and on the following basis.

### **2.6.1 Purchase of established dwellings**

Genuine savings are preferable, these are demonstrated as regular savings on a bank statement or term deposit. The Society will, however, accept applications which include non genuine savings. The first home owners grant can be included as part of non genuine savings.

NOTE: Where LMI is needed , then satisfaction of their requirements will also need to be met.

### **2.6.2 Construction loans (house and land)**

Genuine savings are preferable, however the Society may accept applications which include non genuine savings where:

1. The non genuine savings are provided by a third party funder, approved by the Society, who is advancing the First Home Owners Grant up front and the third party funding will be cleared from receipt of the First Home Owners Grant.
2. The non genuine savings are a non refundable gift, proceeds of a property sale or from a legitimate, explainable source (eg. inheritance, windfall or divorce settlement). Other repayable borrowed funds would generally not be deemed a source of non genuine savings.

Where a construction loan does not meet the above conditions then genuine savings will be required to ensure the loan to valuation ratio at funding of the land does not exceed 95% of the land purchase excluding capitalised lenders mortgage insurance. In these cases the First Home Owners Grant may be used as equity towards the construction not the land purchase.

NOTE: Where LMI is needed , then satisfaction of their requirements will also need to be met.

### **2.6.3 Applications with non genuine savings:**

Where non genuine savings are accepted as the deposit towards the application the following additional credit criteria will apply:

- a) current employment stability of minimum 12 months, **or**, current employment of minimum 6 months **and** Previous Employment term minimum 18 months **and** employment within the same industry
- b) current residential stability of at least 12 months
- c) clear credit check with no defaults, judgements, court writs, bankruptcy etc
- d) rental letter or rental history to confirm good conduct
- e) six months statements for current credit commitments to show good conduct
- f) maximum loan term of 30 years, and
- g) maximum LVR of 95% (inclusive of LMI and fees)

Good conduct is evidenced by arrears less than 21 days and/or any over limit balances less than 21 days.

*\*NOTE: Where late payment penalty fees or over the limit fees are noted on the statement please calculate arrears days to determine acceptable conduct.*

NOTE: Where LMI is needed, then satisfaction of their requirements will also need to be met.

## **2.7 APPLICATIONS WITH NON GENUINE SAVINGS OTHER THAN FIRST HOME OWNERS**

Maximum LVR of 95% (inclusive of LMI and fees).

## **2.8 ANTI-DISCRIMINATION REQUIREMENTS**

All applications are assessed in accordance with all relevant 'Equal Opportunity' and 'Anti Discrimination' legislation.

Applications are assessed on an objective basis on the information presented in the loan application process

The Society and its officers will not, under any circumstances, discriminate against existing or proposed borrowers on the basis of:

- age
- sex
- marital status
- disability
- race
- religion or religious beliefs, and
- family circumstances.

## **2.10 PURPOSE OF FACILITY**

Originators and Lending Officers shall always establish the purpose for which the loan is being requested in order to rule out any illegal or similarly inappropriate purpose.

When lending to non-individuals, the purpose of the loan must be within the parameters of the relevant Trust Deed, Memorandum and Articles of Association, Constitution or any rules governing the body.

The purpose of the loan will determine whether the facility will be regulated by the Consumer Credit Code.

## **2.12 BROKERS AND AGGREGATORS**

Brokers and aggregators must have the capacity, reputation and ability to perform in a way that is acceptable to the Society.

Every effort must be made to ensure that third parties such as Brokers and aggregators represent the Society and its range of products and services in the same professional manner as a staff member. This will involve each Broker satisfying the Society's accreditation process as outlined in the 'New Broker Contract & Accreditation Procedure' held by Managers of Business Development and Retail Support.

Operating requirements including conduct and disclosure is also outlined in this Policy. Broker agreements and performance will be subject to ongoing reviews.

All Brokers and aggregators must be registered with ASIC to engage in credit activities by way of an ACL or as a Credit Representative of aggregator's ACL. Brokers and aggregators offering Police & Nurses products are not authorised to operate under Police & Nurses ACL.

Brokers, aggregators and their direct representatives are to act solely as originators of loan applications and under no circumstances shall they perform any part of the final loan assessment or approval.

### **2.12.1 Operating requirements**

A formal, written agreement will be entered with the Broking Company/aggregator to ensure its compliance with the following:

- a) the extent of the services required
- b) commission arrangements
- c) disclosure requirements
- d) all transactions to be at 'arms length'
- e) dispute resolution procedures, including subscription to an approved EDR scheme
- f) compliance with Society process and procedural requirements. Operating policy and procedures shall be provided to the Broker or aggregator and updates supplied on a regular basis
- g) compliance with Responsible Lending provisions under the NCA. Includes, but not limited to, providing the Society with a copy of the Pre-Assessment of suitability on all submissions. Police & Nurses will sample and verify random submissions for compliance
- h) verification that the Broker or aggregator will not make any representations, warranties or statements to the applicant in relation to the credit being provided
- i) all relevant advertising by the Broker or aggregator must first be authorised by the Society. Relevant advertising is any form of advertising that features Police & Nurses
- j) the Broker will not be allowed to order a valuation report directly from the Society's valuers
- k) the Broker or aggregator will indemnify the Society for any breaches of either the Consumer Credit Code or NCA (including Responsible Lending provisions)
- l) the Broker fully understands that it is a criminal offence to make a false or misleading representation in relation to the loan application, and
- m) confirmation that the Society can rescind any finance approval prior to settlement for any reason.

### **2.12.2 Conduct and disclosures**

All disclosures must be made as required by the relevant legislation and regulation including:

- a) commission disclosures shall be made on the loan contract
- b) Managers of Business Development and Retail Support are responsible for monitoring the Broker's compliance with policy and procedures for all transactions introduced
- c) interviews with applicants shall be arranged to verify information supplied by the Broker and check the standards of professional conduct, and
- d) the Society's Business Assurance or Credit Risk Management areas will conduct regular audits and report on any areas of non-compliance under the NCA.

## **2.15 CHECKLIST FOR CREDIT ORIGINATION**

As a minimum, the following areas must be considered when submitting a loan application:

- a) capacity - the Society requires the applicant/s to demonstrate that the proposed loan can be repaid without substantial hardship and in accordance with the terms of the loan
- b) purpose - the purpose of the loan must meet the Society's Lending Policy and be clearly established for the object of identifying if the borrowing is regulated by the NCA
- c) employment history - applicants must show a stable background of employment in the same industry or profession
- d) residential status - applicants must show a stable background of residency

- e) suitability of the product - the product offered must not be unsuitable for the borrowers purpose, goal and/or needs. This includes the term, repayment method, interest type and other features of the product . The Suitability Assessement must be current and completed within the timeframes of a valid approval, see Section 5.2
- f) security - security must be acceptable to the Society and readily realisable in the event of default. Lending ratios must comply with the relevant product profile and Section 3.8 of this Policy
- g) assets and liabilities statement - applicants must demonstrate a sound financial position and not be over-committed. The principle source of repayments should not be sale of existing asset. Superannuation can be considered as an asset, particularly where it is a mitigating factor, and
- h) credit history - borrower disclosed adverse past credit history must be included in submissions. Previous loans with the Society and supplied statements of external accounts should have been well conducted.

## Section 3 - CREDIT ASSESSMENT

### 3.1 ACCEPTABLE INCOME

The Society requires all applicants to demonstrate income for serviceability of applications, income may be taken from waged employment, some government benefits and business profit.

The Society will maintain Income Loading and Confirmation Procedures outlining the types of income acceptable for assessment purposes and how this income will be verified.

#### 3.1.1 Total gross monthly income

Income is expressed in Total Gross Monthly, which includes:

- gross salary/wage before tax
- net profit, after business expenses, for self-employed applicants, and
- other fixed regular income as defined in the acceptable income matrix in the income loading and confirmation procedures.

#### 3.1.2 Net household income

For lending purposes, the Society's definition of Net Household Income is all applicants Acceptable Income after tax and weighting. Weightings of Household Income is contained within the Income Loading and Confirmation table at the end of this document.

#### 3.1.3 Confirmation of income

All declared income used in NDI assessment must be confirmed, this is done in accordance with the Income Loading and Confirmation Procedure. When confirming income the documents required may vary depending on the type of income.

### 3.2 APPLICATION (LOAN ENQUIRY) FORMS

The Society's Loan Enquiry forms must be used for retail products to ensure that all required information is captured. Loan Enquiry forms can be pre-printed or system generated.

The forms may be completed by the applicants themselves and should be checked for completeness by the officer processing the application.

### 3.3 CAPACITY ANALYSIS

#### 3.3.1 Net Disposable Income test (NDI)

Police & Nurses calculates a Net Disposable Income (NDI) ratio in assessing the capacity of an applicant to repay a facility. The ratio is an expression of income dollar over dollar expended, e.g. a ratio of 1.00 would indicate \$1.00 earned for every \$1.00 spent. It is calculated as:

$$\frac{(\text{Net Income} - \text{Living Expenses})}{\text{Liabilities}}$$

#### 3.3.2 Net Disposable Income (NDI) ratio

Ratio's for the net disposable income test will be reviewed and set by the Credit Committee.

Joint incomes may be utilised only when both parties are also the borrowers. Please refer to Income Loading and Confirmation procedures.

Serviceability must pass a net disposable income test, for Mortgage lending an NDI less than 1.05 will not be accepted.

### 3.3.3 Household expenses

HPI is used as a base level of Household Expenses for carrying out net disposable income tests. This index is reviewed at least half yearly, in line with the issue of new statistics. The statistics to be used will be as approved by the Society and buffers may be applied as required for certain borrowers.

### 3.3.4 Fixed commitments

Total monthly financial commitments must include all regular financial commitments of the borrower.

For the purpose of carrying out an income ratio test, any payments that are made on a fortnightly, quarterly, half-yearly or annual basis should be converted to a monthly equivalent.

Financial commitments include (but not limited to):

- loan repayments
- credit card repayments
- store account payments
- rent or board
- maintenance payments, and
- overdraft and line of credit payments.

### 3.3.5 Verification of fixed commitments

Fixed financial commitments of an applicant should be confirmed wherever possible from acceptable source documents. Sources of confirmation include:

- bank statements
- credit card statements
- store account statements
- repayment booklets
- retail agreement/receipts
- court order, and
- profit and loss accounts.

### 3.3.7 Mortgage secured revolving credit facilities

Monthly commitment for mortgage secured revolving finance facilities<sup>[1]</sup> is to be assessed on the approved limit for the facility not the balance. The monthly commitment is to be based on the products qualifying rate percentage against the relative credit limit, which will equate to a principal and interest repayment over 30 years.

NOTE<sup>[1]</sup>: The Police & Nurses product qualifying rate applies to both internal and external mortgage secured revolving credit facilities.

### 3.3.8 Unsecured revolving credit facilities

Monthly commitment for revolving finance facilities is to be assessed on the approved limit for the facility. Under no circumstances should the commitment only be based on the balance outstanding at the time of the application. The monthly commitment is to be based on 4% of the relative credit limit.

Types of revolving credit facilities include:

- credit cards
- store cards/accounts, and
- unsecured overdrafts/lines of credit.

### 3.3.9 Mortgage secured loans

Capacity for mortgage secured loans is to be assessed with repayments<sup>[1]</sup> being calculated at a 'qualifying' interest rate. This qualifying interest rate shall not be less than the 'actual' loan interest rate.

The qualifying rate includes a buffer 'add-on' rate above the product rate and is calculated as:

#### Product Rate + Add-on Rate

Where the Add-on rate is set by the Credit Committee in light of prevailing conditions. The Credit Committee may set a qualifying rate independent of the PMI qualifying rate.

Mortgage secured loans include:

- concessional
- fixed rate, and
- variable.

NOTE<sup>[1]</sup>: Interest Only loans are assessed with principle and interest repayments over 30 years.

### 3.3.10 Personal loans

Monthly commitment used in assessment on personal loans must incorporate all monthly fees. For this a buffer will be used on top of the product rate in calculating the repayments for assessment. This buffer will be set by Credit Committee in accordance with the applicable fees for the products, the buffer is currently 0.5% above the product rate.

## 3.4 CREDIT CHECKS

Credit checks are carried out by the Society as required at the time of application on all proposed borrowers and guarantors. The appropriate Privacy Act forms of consent must be held before a credit check is undertaken. A credit check may only be requested for the proper purpose of assessing an applicant's eligibility for a loan and within the terms of the consent given by the applicant. A full formal explanation is required where any adverse history, either via credit check or statement conduct, is evident.

## 3.6 EQUITY

Lending Officers assessing an application for mortgage secured loans must be satisfied of the applicant's source of equity via savings, non refundable gift, proceeds of a property sale or from a legitimate, explainable source (eg. inheritance, windfall, divorce settlement etc.).

Proof of savings for loans requiring mortgage insurance is to be confirmed by one or more of the following options to confirm genuine savings over three months:

- savings account statements
- passbook accounts
- term deposit statements
- statement on sale of shares
- equity in real estate
- loan contract and loan statement identifying additional repayments that able for redraw, and
- lending officers should obtain an explanation of any large deposits during that period.

Gifts from family members should be supported by a Statutory Declaration from the donor confirming that the funds are non-repayable.

### 3.7 GUARANTEES

The Society accepts guarantees as a form of security given by a third party in support of a loan to a member. Borrowers must still demonstrate a capacity to repay the loan in their own right.

The provision of a guarantor must not be used as a supporting reason for acceptance of an application if the borrower is unable to make repayments in accordance with the loan terms or would be placed in a position of hardship.

#### 3.7.1 General

When a Guarantor is provided with an application a separate application form or statement of position is to be provided to confirm the acceptability as Guarantor. It would be expected that the Guarantor would have a sound financial position. In all instances written authority to complete a credit check must be held. Oral consent is not acceptable for guarantors.

For mortgage insured loans involving a guarantor, income and employment evidence is required for each guarantor.

Limited Guarantees are acceptable where the Guarantor is partially securing the debt and is looking to limit their liability to the third party borrowing.

Further we note the following as a guide only:

- Police & Nurses will only accept security guarantees inclusive of family guarantors for owner occupied purposes
- a second mortgage can be taken however the LVR against security cannot exceed 80%
- in completing a separate application form for Guarantors, assets, liabilities, employment and income details must be included however need not be evidenced as income servicing is not considered – the borrowers still have to service the full debt
- if there are debts against the guarantor's property, then 3 months of recent and consecutive bank statements to show good conduct will be required
- on loans approved with guarantees, independent legal advice will be required at sign up of contracts and related documentation
- Suitability Assessment of Guarantors will not be required – only for borrowers
- where applicants contribute a minimum 5% genuine savings towards the application as well as the guarantor equity then this is considered genuine savings
- where applicants do not have a minimum 5% genuine savings to contribute and rely on non genuine saved funds, FHOG and equity from Guarantors, then the whole application is treated as non genuine savings. In these instances, the applicants and not the Guarantors will need to fit within the non genuine savings policy (refer 2.6.3 for non genuine savings policy)
- if there are any defaults against the applicants, the Guarantor/s are advised and given a copy of the credit report as they will need to be made fully aware of the situation.

#### 3.7.2 Provision of Guarantees

Guarantees are required in the following circumstances:

- a) where the financial condition of the borrower does not provide sufficient confidence to the Society
- b) to link the security to the loan. Whenever a mortgage or other security is provided by an entity other than the borrower (including where only one of the joint owners of the property is the

- borrower) a Guarantee must be taken in order to link the security to the loan
- c) from all the Directors when the borrower is a company
- d) from the adult beneficiaries of a Trust (or as directed by our solicitor)
- e) from the Trustee in its own right, when the borrower is the Trust (or as directed by our solicitor), or
- f) from family companies if they are the source of income for an individual borrower.

### 3.8 SECURITY

The Society requires security over real estate for all Retail and Property Finance mortgage secured loans (unless cash has been lodged on deposit with the Society to secure the advance).

The value of all securities will be established by the Society prior to funding. The need for residential real estate to be independently valued by a panel valuer of the Society is dependant on the proposed LVR, the type of facility approved, the type of security offered and whether the purchase is at arms-length (ie. no relationship or link exists between the vendor and the purchaser).

Business assets will not be used for security purposes. It may be appropriate at times to take registered mortgage debentures over a company's assets to control cash flows.

#### 3.8.1 Mortgage secured loans

Security provided to the Society must be by a Registered Mortgage over property that is zoned 'Residential' of at least 50 square metres in size. The only exception to this policy is a property of 40,469sqm (10 acres) or less that is zoned 'Special Rural'.

Security which does not carry the appropriate zoning will be reviewed by the Societies lending officer along with supplied supporting comments.

#### 3.8.4 Securities – non preferred

The Society maintains a list non-preferred securities, these represent a higher risk to the Society due to their specialised nature. Where a loan is to be provided against a non-preferred security the application is required to be reviewed by the Societies lending officer along with supplied supporting comments.

List of non-preferred securities for retail loans:

- rural land and improvements (including Hobby Farms)
- purple titles
- hotels/motels
- trucks (new and used)
- mobile homes
- boats
- strata-titled caravan park bays
- time-share units
- caravan parks
- kit homes
- serviced apartments
- retirement village
- commercial property, and
- any specialised property.

### 3.8.5 Property zones

Property security is zoned according to region. The zones are used to assign LMI thresholds and weights a property for appropriate valuation and fees.

## 3.9 LOAN TO VALUATION RATIO

### 3.9.1 General

The Loan to Valuation Ratio (LVR) is used to determine the maximum amount that the Society will lend against a security for mortgage secured lending. The LVR is calculated using the lower of the valuation or purchase price/building cost.

The Society establishes different permitted ratios for the various products in view of several factors, including, the requirements of mortgage insurers and the nature or purpose of the facility and or type of security.

### 3.9.2 Property zone thresholds

Property Zone Thresholds have been adjusted to more accurately reflect the region (in WA) where the applicants are to be located post settlement.

### 3.8.3 Property value thresholds

Overall LVR maximums against the dollar value of a proposed or existing security without LMI are limited as follows:

Metro Zone Property Value	LVR Threshold*
< \$1,000,000	80%
≥ \$1,000,000	75%
< \$1,500,000	75%
≥ \$1,500,000	70%
[1] property value only, other thresholds on security type and product also apply	
[2] non metro weighted properties remain at 50%	

### 3.9.5 Calculation

The LVR is calculated as follows:

1. loan amount (L) amount is established by:

$$L = (a + b + c + d)$$

- where:
- a) is the amount of the proposed loan (including capitalised fees)
  - b) is the balance outstanding on all prior encumbrances revealed in a search of the Certificate of Title
  - c) is any funds available for redraw, and
  - d) is the undrawn limit on any line of credit or overdraft facility secured by the property.

2. value (V) is established in accordance with the Societies policy (3.11.1) which may include the use of a panel valuer, and
3. LVR therefore is the division of L and V, expressed as a percentage.

$$\text{LVR} = \frac{\text{Loan Amount(L)} = (a + b + c + d)}{\text{Value of Security(V)}} \times 100$$

\*An Overall LVR may be calculated where multiple properties exist securing shared loans. In this circumstance Loan Amount (L) is as above plus loans attached to linked properties and Value(V) is the sum of values for all linked properties.

### 3.9.6 Maximum ratios

The Society has established a maximum loan to value ratio for each of its lending products. Generally members who wish to borrow the maximum amount must demonstrate excellent debt serving capacity and a strong employment stability. The maximum ratios may be exceeded by the amount of a Lenders Mortgage Insurance premium that has been added to the loan.

The LVR ratios allowed for the Society's various products, subject to a First Registered Mortgage, are as follows:

Product		Maximum LVR
Owner Occupier Loan (including construction)		95%*
Investment Loan (including construction)		95%*
Land Loan		95%*
Equity Loan		90%
Bridging Loan		85%
Other Loans (residential security)		80%
Other Loans (commercial security)		70%
Term Deposit Funds		100%
Construction Finance/ Property Finance	Development Cost	75%
	End Value	65%
Line of Credit Facilities		90%
*plus capped premium where genuine savings are confirmed. Inclusive of LMI and fees for non genuine savings.		

NOTE: Second mortgage section(3.11) outlines requirements when first mortgage security is not available.

### 3.10 LENDERS MORTGAGE INSURANCE

For mortgage secured loan applications with an LVR between non insured threshold and the maximum ratios the Society requires Lenders Mortgage Insurance(LMI).

A breakdown of LMI requirements for preferred properties under \$1M:

1. A metro\* zoned security property:
  - must be mortgage insured, at the borrowers expense, if the LVR exceeds 80%
2. A non-metro\* zoned security property:
  - must be mortgage insured, at the borrower's expense, if the loan to valuation ratio exceeds 50%. (By exception, Delegated Credit Authority in terms of the Delegations Matrix may approve a loan without Lenders Mortgage Insurance for LVR greater than 50%)

\*Where: a metro zoned security property has a postcode located within the metropolitan area of an Australian capital city or be deemed a major regional hub. A non-metro weighted security property is all other postcodes not deemed to be metro zoned.

### 3.11 SECOND MORTGAGE

The Society will grant a loan against a Second Registered Mortgage over real estate provided the total borrowings against the property do not exceed an LVR of 80%.

Statements of the loan/s secured by the First Registered Mortgage must be provided for at least the previous three months to confirm a well-conducted facility with repayments being met on time.

### **3.12 REFINANCE**

The Society will re-finance/consolidate loans held with other financial institutions provided that the application is of a satisfactory standard and fully meets with the Society's lending criteria.

Statements of the loan/s to be re-financed must be provided for the previous three months as a minimum (recent and consecutive) to confirm a well-conducted facility with repayments being met on time.

### **3.13 CONSTRUCTION LOANS**

The Society offers construction loans to applicants on the basis that construction is completed by a registered builder or on an owner builder basis. Construction loans will not to be funded until all the necessary consents and approvals from relevant statutory and other authorities are held and confirmed.

#### **3.13.1 Registered builders**

A copy of the fixed price contract and schedule is to be held by the Society prior to full approval. The contract must be formed under the appropriate act, be initialled on each page and signed where an execution page is provided.

The schedule must be signed and match the funds allocated for construction. Where a variation to the contract is being funded the signed variation must be provided and variation amount included into the schedule.

The contract, schedule and any funded variations must be sighted by the valuer to confirm is within industry norms. Where the valuer indicates a discrepancy on the schedule and the upfront payment exceeds 20% of construction funds then the application must be referred to an officer with the appropriate DCA.

Plans with all necessary consents and approvals from the relevant statutory and other authorities must be held prior to first progress payment.

If the loan amount is to be advanced progressively, the progress advances are not to exceed increases in the value of the mortgaged property. Increased value is to be confirmed by inspection certificates from a valuer as instructed by the Society.

#### **3.13.2 Owner builders**

The following special conditions apply to applicants who are constructing their residences as owner builders, rather than entering a fixed price contract with a building company:

- a) the applicant must either own the block of land unencumbered or have sufficient funds available to purchase it outright
- b) the applicant must be in a position to contribute a minimum of 20% towards the estimated cost of construction. These funds must be input as the building progresses, to the satisfaction of the Society, prior to the Society releasing any loan funds. The overall loan to valuation ratio must never exceed 70%
- c) a detailed costing of the proposed dwelling showing every item of expenditure, and including written quotations of major items, must be submitted to the satisfaction of the Society. Every proposal will be valued by a panel valuer prior to approval and also at each subsequent claim for a progress payment
- d) the applicant must arrange for a Registered Builder to oversee the construction. The Registered Builder must confirm in writing to the Society that the above-mentioned costing is reasonable and he will ensure that the residence is completed to a satisfactory standard, and
- e) a Quantity Surveyor may be required.

### **3.14 BRIDGING LOANS**

The Society offers Bridging Loans for Owner Occupied lending; Residential Investment Lending is not applicable for Bridging. In a nil end debt position, the value of the property to be sold must be discounted a further 20% to account for possible fluctuations in value. Servicing of Bridging loans must be demonstrated on the end debt position. If nil end debt then income verification is not required.

### **3.15 CHECKLIST FOR CREDIT ASSESSMENT**

As a minimum, the following areas must be considered when assessing a loan application:

- a) capacity - the Society requires the applicant/s to demonstrate that the proposed loan can be repaid without substantial hardship and in accordance with the terms of the loan
- b) purpose - the purpose of the loan must meet the Society's Lending Policy and be clearly established for the object of identifying if the borrowing is regulated by the National Credit Act
- c) employment history - applicants must show a stable background of employment in the same industry or profession
- d) residential status - applicants must show a stable background of residency
- e) suitability of the product - the product offered must not be unsuitable for the borrowers purpose, goal and/or needs. This includes the term, repayment method, interest type and other features of the product. The Suitability Assessment must be current and completed within the timeframes of a valid approval, see Section 5.2
- f) term of the loan - the term of the loan must comply with the relevant product profile
- g) security - security must be acceptable to the Society and readily realisable in the event of default. Lending ratios must comply with the relevant product profile and Section 3.10 of this Policy
- h) assets and liabilities statement - applicants must demonstrate a sound financial position and not be over-committed, and
- i) credit history - credit checks on applicants should not reveal an adverse past history. Previous loans with the Society should have been well conducted.

## **Section 5 - VERIFICATION & DOCUMENTATION**

### **5.2 COMMITMENTS (LOANS APPROVED NOT YET DRAWN)**

Approved loan commitments remain valid for a defined period. If not funded within the required timeframe then all the information provided with the application is to be confirmed as current before the loan proceeds may be disbursed.

Housing loans (other than a building loan being drawn down in progress payments) and Property Finance Loans remain valid for a period of up to four months from the date of approval.

Where a housing loan has been fully approved, documented and all signed documentation returned to the Society pending settlement, the settlement is to proceed within 6 months of the approval or full re-assessment of the application will be required.

Personal loans remain valid for a period of up to six weeks from the date of approval.

A valid approval must include a Suitability Assessment that has been completed within the appropriate timeframes above.

### **5.4 GUARANTEES – INDEPENDENT LEGAL ADVICE**

#### **5.4.1 Mortgage secured and property finance loans**

The Society requires that all Guarantors must obtain independent legal advice.

An independent solicitor must be engaged by each Guarantor to explain the terms of the guarantee and its implications to the Guarantor. This requirement includes directors giving guarantees for facilities to their companies. The Solicitor must sign a letter addressed to the Society confirming that all documents have been explained to, and understood by, the Guarantor. This advice must be held prior to settlement.

#### **5.4.2 Other loans (including personal loans)**

Independent advice is not a mandatory requirement for loans that are not mortgage secured, however the Society requires lending officers to recommend to the Guarantor that independent advice should be sought.

#### **5.4.3 Signing of a Guarantee (refer 5.4.1 and 5.4.2)**

If the guarantee is not executed in front of a solicitor, the documents should be signed, wherever possible, at an office of the Society.

#### **5.4.4 Guarantors withdrawal**

If the Guarantor wishes to withdraw from the guarantee before funding, the loan must not be settled and requires re-assessment for approval.

The application is to be re-assessed by the officer who approved the loan or in their absence an officer of the same or higher Delegated Credit Authority.

### **5.5 SUPPORTING DOCUMENTATION**

In addition to confirming income and equity, supporting documentation should be provided with an application to confirm the purpose of the loan, the purchase price, eligibility to borrow and the power to provide a guarantee or security etc.

Such documents may include but are not limited to:

- signed Offer and Acceptance
- signed Building Contract
- invoices (eg. from car dealer)

- memorandum and Articles of Association
- Transfer of Land
- Trust Deed
- Power of Attorney
- most recent paid billing statements for council rates, body corporate levies and land tax charges (for mortgage insured loans)

This list should not be regarded as exhaustive, when submitting an application it should be examined in detail to ensure that sufficient information is provided.

## 5.6 VALUATIONS

### 5.6.1 Requirements

The Society maintains a requirement that the value of all real property securities be established prior to funding of a facility. The need for residential real estate to be independently valued by a panel valuer of the Society is dependent on the proposed LVR, the type of facility approved, the type of security offered and whether the purchase is at arms-length (ie. no relationship or link exists between the vendor and purchaser).

## 5.7 INSURANCE

The Society requires that mortgaged property is adequately insured in order to protect its position and minimise the risk of loss.

### 5.7.1 General

- a) the only types of insurance that the Society may make a condition of loan approval are:
  1. insurance over mortgaged property
  2. lenders mortgage insurance
- b) no Originator nor Officer may represent to a member or Guarantor that he/she is required to take out any other form of insurance, including consumer credit insurance
- c) no originator nor officer may represent to a member or Guarantor that insurance must be arranged with a particular insurer
- d) the Society cannot finance the premium for insurance over mortgaged goods for more than one year at a time (for Consumer Credit Code regulated loans)
- e) if an insurer rejects a proposal and the Society has financed the premium, the Society must ensure that:
  1. the insurer refunds the premium
  2. the refund is credited to the loan account
  3. the member is instructed to re-arrange insurance forthwith
- f) fully comprehensive insurance over a motor vehicle, motor cycle and building cover in respect of real estate property must be arranged. The exception to this is off-road vehicles and off road motor cycles where insurance for theft and fire is required as fully comprehensive insurance is not available
- g) a certificate of Currency, noting the Society's interest as mortgagee, must be provided to the Society prior to the funding of the loan, and
- h) cover notes are not acceptable for home lending, as the premium must be paid prior to the funding of the loan. For Personal Loans only a cover note is acceptable along with proof of payment.

### 5.7.2 Mortgage secured loans

a) Single residential property

A certificate of Currency, noting the Society's interest as mortgagee, must be provided to the Society, prior to settlement.

b) Construction loans

During the course of construction, the building is generally insured by the builder. A Certificate of Currency for insurance covering the course of construction, and noting the Society's interest as mortgagee, must be lodged with the Society prior to the release of any progress payments. Prior to the release of the final progress payment, a Certificate of Currency showing full building cover, and noting the Society's interest as mortgagee must be provided as detailed in a) above.

c) Strata titled property

Insurance cover for all Strata titled properties, including duplexes, triplexes and units, is required as follows:

A Certificate of Currency of the Policy taken out by the Body Corporate must be lodged with the Society evidencing:

- correct unit allocation
- replacement value insurance of any building shown on the strata
- the plan and any building that is common property
- public liability insurance for at least \$5,000,000
- any other cover required by law, and
- any other risks which the strata Company has insured against.

### 5.7.3 Minimum amount of cover

The buildings must be insured for at least the amount stated by the Society's Valuer in their valuation report.

If a formal valuation has not been undertaken, the minimum amount of insurance cover is at the discretion of the Officer approving the loan after considering; the type, location and age of the property, the purchase price and the loan amount.

## 5.8 NOTICE TO PRIOR MORTGAGEE

In the event the Society is required to register a Second Mortgage as security for a loan, a notice must be forwarded to the prior mortgagee for its acknowledgment.

The Society does not require entering into a Priority Agreement with the prior mortgagee, unless specifically requested by the other financial institution. Lending Officers must use the amount of the Priority Agreement in the calculation of the Loan to Valuation Ratio.

The prior mortgagee must provide the following information in writing regarding the outstanding debt:

- current outstanding balance
- approved limits
- outstanding interest and other fees or costs which the institution may charge to the account of the mortgagor
- interest rate
- monthly repayments, and
- building insurance.

## **5.9 POSTPONEMENT AND PRIORITY AGREEMENTS**

The Society will enter Postponement and Priority Agreements with other financial institutions to cover the following situations:

### **5.9.1 Postponement Agreement**

Utilised when the Society registers a Second Mortgage on a Certificate of Title and wishes to gain the rights of the First Mortgagee in the event of any default action. If the Society is already the First Mortgagee, it will not generally weaken its position by entering into a Postponement Agreement with a subsequent mortgagee.

### **5.9.2 Priority agreement**

Utilised when the First Mortgagee, either the Society or another financial institution, wishes to protect its position by categorically stating the dollar amount which is secured by its mortgage. It is imperative to enter into a Priority Agreement when a debt is likely to be fluctuating - eg. overdraft or line of credit.

Standard Society (or other financial institution when applicable) documentation must be used. Any amendments must be referred to the Society's solicitors, prior to execution.

NOTE: When executing a Power of Attorney on behalf of the Society the document is to be reviewed to ensure that it does not contain any clauses which would impact on the Society's security or ranking.

## **5.10 SEARCHES**

All relevant searches (land title searches, business name searches, company searches, credit references) are to be conducted, reviewed and deemed acceptable prior to the funding of any loan.

### **5.10.1 Company**

A search of the Australian Securities Commission must be undertaken when lending to companies. The search must be performed by the Society's Solicitors, who must verify that everything is in order prior to settlement.

### **5.10.2 Other**

All other searches, eg. Certificates of Title, REVS etc are to be obtained by Lending Officers. They must be perused by the relative processing and approval Officers and verified to contain nothing adverse to the Society's interest, prior to the loan being funded.

## **5.11 SOLICITORS INSTRUCTIONS**

Only Solicitors on the Society's approved panel may be instructed to act on behalf of the Society by using the Society's standard letter of instruction to avoid Solicitors being issued with ad hoc directives.

## **5.12 SUPPORTING DOCUMENTS**

Where Solicitors have been appointed to act for the Society, the Solicitor will accept responsibility to examine all supporting documents including Trust Deed and any other relevant documents. They must confirm that the power to borrow, mortgage, guarantee etc. is in order and that the documents contain no material that could be adverse to the interests of the Society.

The Solicitors must also ensure that the company documents have been certified by company officers as being true and correct.

Where a solicitor is not appointed it is the responsibility of the lending officers to ensure that all supporting documents are in order.

## Section 6 SETTLEMENT

### 6.1 FUNDING OF LOANS

#### 6.1.2 Funding of mortgage secured loans

Officers with an appropriate Delegated Credit Authority or specific delegated funding authority are authorised to approve the funding of Mortgage Secured Loans, provided they did not approve the loan.

The following conditions must be met:

- a) all conditions relating to the loan must be complied with prior to the funding of the loan
- b) it must be confirmed that the Officer who approved the loan held the necessary delegated credit authority level
- c) all documents have been properly executed
- d) all approval conditions have been satisfied, and
- e) the Society's Solicitors (in the case of loans to companies and trusts have confirmed that settlement may proceed. Confirmation will be via a Solicitor's Certificate).

## APPENDIX A - Acceptable income types and weighting

Income Types	% LendFast will automatically weight the income as follows
<p><b>Employment income</b></p> <ul style="list-style-type: none"> <li>■ permanent full time employment</li> <li>■ permanent part time employment</li> <li>■ full time temporary employment</li> <li>■ contract employment where employer pays the tax</li> <li>■ casual employment , or</li> <li>■ salary and wage employees.</li> </ul> <p>Salary and wage is defined as normal ordinary time hours, regular overtime, regular bonus, commissions, allowances and salary sacrifice</p>	100%
<p><b>Self employed income: non standard income</b></p> <ul style="list-style-type: none"> <li>■ a person who works for themselves instead of an employer and generates an income from a trade or business that they operate personally, or</li> <li>■ contract employment where employee pays their own tax.</li> </ul>	100%
<p><b>Investment income</b></p> <ul style="list-style-type: none"> <li>■ rental income from a property asset</li> <li>■ interest income from a term deposit or similar, or</li> <li>■ dividend income from shares or similar.</li> </ul>	80%
<p><b>Superannuation</b></p> <ul style="list-style-type: none"> <li>■ superannuation pensions and annuities</li> </ul>	100%
<p><b>Investment income</b></p> <ul style="list-style-type: none"> <li>■ rental income from a property asset</li> <li>■ interest income from a term deposit or similar, or</li> <li>■ dividend income from shares or similar.</li> </ul>	80%
<p><b>Child support payments</b></p> <p>Use of CSA payments are subject to:</p> <ol style="list-style-type: none"> <li>1. Maintenance Agreement being registered with the child support agency and</li> <li>2. The benefit is to be received for the term of the loan or at least the next five (5) years and</li> </ol> <p>Where the loan is a <u>mortgage insured home loan</u> the following will also apply:</p> <ol style="list-style-type: none"> <li>1. Evidence that consistent payments have been made for the last six months, via bank statements</li> </ol>	100%

<p><b>Government income</b></p> <ul style="list-style-type: none"> <li>■ Age Pension available for persons that have reached retirement age</li> <li>■ Veterans Affairs Pension is a payment to ex-servicemen and women, usually paid fortnightly and tax-free</li> <li>■ Disability Support Pension is a payment for people whose physical, intellectual or psychiatric impairment prevents them from working, or for people who are permanently blind</li> <li>■ Carer Payment is an income support payment for people who are unable to support themselves through participation in the workforce while caring for someone with a disability, severe medical condition or who is frail or aged</li> </ul>	100%
<p><b>Australian government benefits or allowances (Centrelink)</b></p> <ul style="list-style-type: none"> <li>■ Widow Allowance provides support for persons who have become widowed, divorced or separated later in life and have no recent workforce experience.</li> <li>■ Parenting Payment provides financial help for people who are primary carers of children. Parenting payment can only be paid to one person who cares for a child.</li> <li>■ Family Tax Benefit Part A helps with the cost of raising children</li> <li>■ Family Tax Benefit Part B provides extra assistance to single parents and families with one main income.</li> <li>■ Carer Allowance is a supplementary payment for carers who provide daily care and attention for adults with a disability, severe medical condition or who is frail aged at home. Carer Allowance (adult) may be paid on top of <a href="#">Carer Payment (adult)</a> or other payments, such as <a href="#">Age Pension</a>.</li> </ul>	80%
<p><b>Workers compensation</b></p>	100%
<p><b>Overseas income</b></p> <ul style="list-style-type: none"> <li>■ 90% of overseas income is to be converted to Australian dollars</li> </ul>	100%
<p><b>Unacceptable government benefits</b></p> <ul style="list-style-type: none"> <li>■ Austudy</li> <li>■ ABSTUDY</li> <li>■ Youth Allowance</li> <li>■ Newstart Allowance</li> <li>■ Sickness Allowance</li> <li>■ Special Benefit</li> <li>■ Partner Allowance</li> </ul>	0%



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