

Responsible Lending - Requirements and Objectives

R&O Quick Reference Guide – Non-electronically lodged broker loans

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Requirements and Objectives (R&O)

Introduction

As a bank, the Westpac Group has responsible lending conduct obligations under the National Consumer Credit Protection Act. We are committed to meeting our **regulatory requirements**, and ensuring we lend responsibly.



What's changed?

- From **11th February 2019** a slightly modified version of the R&O questions and declarations will be implemented for non-electronically lodged loans eg. broker-introduced home loans. ApplyOnline changes occur Tuesday 19th February 2019.
- Brokers submitting a broker-introduced home loan will now complete an updated version of the R&O Form. The name of this form is **Dynamic R&O Form – from 11th Feb 2019** – there is no longer a Broker specific R&O Form.

Why did we change?

We are streamlining the R&O questions and declarations across the St. George Group.

Aligning the R&O will also simplify the Sales Quality R&O checking process.



What do you need to do from February 2019?

Be aware that the R&O questions and declarations have changed slightly for broker-introduced home loans and they are now the same as first party home loans.

For any broker-introduced deals submitted **on or before** Friday 8th February that require changes to the R&O **from 11th February onwards**, the broker can continue to use the old Broker R&O Form (**Dynamic R&O Form – pre 11th Feb 2019** on Forms Catalogue and Broker portals) so they do not have to complete a new set of R&O questions. *The old Broker R&O Form can only be used in this scenario.*

For any broker-introduced home loans initially submitted from Monday 11th February onwards, the broker must submit a completed copy of the updated R&O Form (**Dynamic R&O Form – from 11th Feb 2019**). *There is no change to the process you follow for broker-introduced loans.*

For first party lending from Monday 11th February onwards, bankers must submit a completed copy of the updated R&O Form (**Dynamic R&O Form – from 11th Feb 2019**). *The content of this form has not changed for first party lending – the form will now be used across first party and broker. There is no change to the process you follow for first party loans.*

What are the changes to the R&O questions and declarations?

The changes to R&O questions and declarations include:

- Removal of Special Circumstances and Arrears questions
- Additional question within Refinance/Debt consolidation
- Some rewording and/or changes to dropdown options for:
 - Mature Age
 - Interest Only
 - Refinance/Debt consolidation
- New declarations added for:
 - Mixed Purpose loans
 - Refinance/Debt consolidation
- Minor rewording of some declarations for:
 - Fixed Interest Rate
 - Interest Only
 - Interest in Advance
 - LMI
 - Personal Use
 - Lines of Credit
 - Relocation loans
 - Refinance/Debt consolidation
 - Mixed Purpose loans

Foreseeable Changes to Circumstances

KEY CHANGES

- Foreseeable changes to circumstances questions have been slightly revised for broker-introduced home loans.
- Foreseeable changes questions must be completed for each applicant included on the loan.

Question / Declaration	Selectable Options
<p>Does the applicant anticipate or plan any changes in their life that will make it harder for them to make their repayments?</p> <p>EXAMPLES: Examples of changes which may adversely impact the applicant's ability to meet their loan repayments include:</p> <ul style="list-style-type: none"> • a change to employment which may result in reduced income • parental or other extended leave • an upcoming bullet or balloon repayment for an existing loan • an interest only, no repayment or honeymoon interest rate period for an existing loan ending. 	<ul style="list-style-type: none"> • Yes • No
<p>Timeframe for change</p>	<ul style="list-style-type: none"> • Within 3 Years • Beyond 3 Years
<p>Nature of Change Additional Information (Beyond 3 Years)</p>	<ul style="list-style-type: none"> • Extended unpaid leave (e.g. maternity) • End of contract / loss of employment • Reduced income • Retirement • Leaving employment • Medical treatment / illness • Increased debt repayments • Large expenditure • Other (with corresponding textbox) <p>Mandatory free-form text box to record Further Details for each mitigant selected.</p>
<p>Nature of Change (Within 3 Years)</p>	<p>Nature of Change</p> <ul style="list-style-type: none"> • Temporary decrease in disposable income • Permanent decrease in disposable income • Anticipated large expenditure <p>Text box to record Further Details of the selected option.</p> <p>Description of Change</p> <ul style="list-style-type: none"> • Extended unpaid leave (e.g. maternity) • End of contract / loss of employment • Reduced income • Retirement • Leaving employment • Medical treatment / illness • Increased debt repayments

Question / Declaration	Selectable Options
	Text box to record Further Details of the selected option.
What is the applicant's plan for making their repayments when this happens?	<ul style="list-style-type: none"> • Using savings • Securing additional income • My application reflects these changes • Reduced expenditure • Sale of asset

Mature Age

KEY CHANGES

- ApplyOnline performs a calculation and will display the “**At what age is the applicant planning to retire?**” question if the customer is aged 45 years or older OR will reach 75 years during the term of the loan. This question is mandatory if the applicant is aged 45 years or older and the applicant must select the age they plan to retire.
- The broker will need to select the age from the dropdown list.
- If the customer is 75 years or older OR will reach their planned retirement age during the loan term, the **planning to pay off this loan** question must be asked and completed.
- The dropdown options for “**How is the applicant planning to pay off this loan once they retire?**” have changed slightly for broker-introduced home loans.
- Mature age questions are applicable for each applicant included on the loan.

Question / Declaration	Selectable Options
At what age is the applicant planning to retire?	<ul style="list-style-type: none"> • All numbers between 45-74 • 75 and above • Not applicable – income not derived from employment
How is the applicant planning to pay off this loan once they retire (voluntarily or due to circumstances which arise)?	<ul style="list-style-type: none"> • Downsizing of home • Sale of assets • Recurring income from superannuation • Income from other investments • Other <p>Mandatory free-form text box for Additional Information to support the option selected above</p>

Fixed Interest Rate

KEY CHANGES

- There are some wording changes to the question and declarations asked for broker-introduced loans.

Question / Declaration	Selectable Options
What is important to the applicant about a fixed rate?	<ul style="list-style-type: none">• Certainty of repayments• Make budgeting easier• Lock in the applicable interest rate• Other (with mandatory free-form text box)
I have discussed that restrictions to additional repayments apply when the interest rate is fixed. Each applicant understands and is still happy to proceed.	Yes - Acknowledge the declaration
I have discussed the possibility of break costs if the additional repayments exceed the threshold, the loan is repaid in full or switched to another product or repayment type within the fixed rate period. Each applicant understands and is still happy to proceed.	Yes - Acknowledge the declaration

Interest Only

KEY CHANGES

- The dropdown options and declarations have had some wording changes for broker-introduced home loans.
- Interest Only declarations will NOT apply to Portfolio loans

Question / Declaration	Selectable Options
Why has the applicant chosen interest only repayments?	<ul style="list-style-type: none"> • Smaller repayments to boost my savings • Flexibility for additional repayments • To manage cashflow on an investment property and maximise tax deductions • Smaller repayments to free up capital to pay off non-deductible debts in the short term • Smaller repayments to free up cash flow for other personal purposes • Other (with mandatory free-form text box)
I have discussed the higher interest rates applicable to Interest Only loans. Each applicant understands and is still happy to proceed.	Yes - Acknowledge the declaration
I have discussed with each applicant the fact that not paying off the principal will result in more interest being paid over the loan term. Each applicant understands and is still happy to proceed.	Yes - Acknowledge the declaration
I have discussed that the principal and interest repayments after the end of the interest only repayments period will be higher than they would have been if the loan had principal and interest repayments throughout its term. Each applicant understands and is still happy to proceed.	Yes - Acknowledge the declaration
I have discussed that the amount of equity that can be built-up in the home will be less with an interest only home loan than with a principal and interest home loan. Each applicant understands and is still happy to proceed.	Yes - Acknowledge the declaration

Interest In Advance / Prepaid Interest

KEY CHANGES

- The wording of the question and declarations has changed slightly for broker-introduced home loans

Question / Declaration	Selectable Options
Why has the applicant chosen to pay interest in advance?	<ul style="list-style-type: none"> For tax advantages Discounts on interest rate Helps maximise cash flow and budgeting Other (with mandatory free-form text box)
I have discussed that interest in advance is only available where the loan is on a fixed rate and the purpose is Investment. Each applicant understands and is still happy to proceed.	Yes - Acknowledge the declaration
I have discussed that an upfront interest payment is required (calculated based on the period selected) to participate in and benefit from this option. Each applicant understands and is still happy to proceed.	Yes - Acknowledge the declaration

Lenders Mortgage Insurance (LMI)

KEY CHANGES

- The wording of the declarations has changed slightly for broker-introduced loans
- The declaration that displayed regarding lenders mortgage insurance premiums being refundable where the loan is repaid early has been removed for broker-introduced loans

Question / Declaration	Selectable Options
I have discussed that lenders mortgage insurance protects the bank if each applicant is unable to meet their loan obligations but this does not relieve each applicant of their obligation to repay the loan. Each applicant understands and is still happy to proceed.	Yes - Acknowledge the declaration
I have discussed that adding lenders mortgage insurance to the loan will increase the size of the repayments. Each applicant understands and is still happy to proceed.	Yes - Acknowledge the declaration
I have discussed that adding lenders mortgage insurance to the loan will mean that each applicant will pay interest on it for the term of the loan. Each applicant understands and is still happy to proceed.	Yes - Acknowledge the declaration

Personal Use

KEY CHANGES

- Category name has changed from **Purchase of Non Real Estate Goods** to **Personal Use**
- The wording of the declarations has changed slightly for broker-introduced home loans

Question / Declaration	Selectable Options
I have discussed that each applicant may be paying for the personal use items beyond their useful life. This may also mean each applicant pays more interest in total over the term of the loan. Each applicant understands and is still happy to proceed.	<ul style="list-style-type: none">• Yes - Acknowledge the declaration• N/A - Useful lifespan of goods likely to exceed loan term.
I have discussed the possibility of financing the personal use items through a loan with a shorter term which may decrease the total amount of interest paid. Each applicant understands and is still happy to proceed.	Yes - Acknowledge the declaration

Line of Credit

KEY CHANGES

- The wording of the declarations has changed slightly for broker-introduced home loans.

Question / Declaration	Selectable Options
Why is the applicant choosing a line of credit with interest only repayments rather than a loan where they pay off the principal over time?	<ul style="list-style-type: none"> Flexibility of drawdown Flexibility of revolving line of credit Assists with investment purchases and tax planning Ongoing need for funds – planning to make a few purchases over a period of time Other (with mandatory free-form text box)
What is the applicant's plan for paying off the line of credit? (multiple options can be selected)	<ul style="list-style-type: none"> Savings from income Sale of assets Recurring income from rental Income from other investments Other (with mandatory free-form text box)
If the applicant's line of credit is reduced or cancelled, how will they repay the amount owing? (multiple options can be selected)	<ul style="list-style-type: none"> Sale of assets (with corresponding mandatory free-form text box) Other (with mandatory free-form text box)
I have discussed the higher interest rates applicable to a line of credit as compared to a standard loan. Each applicant understands and is still happy to proceed.	Yes - Acknowledge the declaration
I have discussed with each applicant the fact that not paying off the principal will result in more interest being paid over the long term. Each applicant understands and is still happy to proceed.	Yes - Acknowledge the declaration
I have discussed with each applicant that line of credit loans require a high level of discipline on behalf of the applicant in order to pay off the loan principal and build up equity. Each applicant understands and is still happy to proceed.	Yes - Acknowledge the declaration

Relocation Loan

KEY CHANGES

- The wording of the declaration has changed slightly for broker-introduced home loans

Question / Declaration	Selectable Options
I have discussed that when the interest repayments are capitalised, each applicant will pay interest on those repayments. Each applicant understands and is still happy to proceed.	Yes - Acknowledge the declaration

Refinance / Debt Consolidation

KEY CHANGES

- There is one new question and declaration being added as well as some wording revisions to existing questions, dropdown options and declarations for broker-introduced home loans
- The question asking “**Why does the applicant want to refinance the existing loan?**” has been removed
- Whenever the applicant requests a new loan term longer than the existing remaining loan term, there is no longer a requirement that the existing remaining loan term has to be greater than 6 months
- This additional information is used by the Broker to assess if the refinance / debt consolidation will result in **overall cost savings to the customer**. Where the customer cannot provide exact details on associated costs, enter a best estimate.

Question / Declaration	Selectable Options
Interest Rate	Enter amount into free-form text box
Fees & Charges	Enter Amount and select Frequency
Repayments	Enter Amount and select Frequency
Exit Fees / Break Costs	Free-form text box – enter a best estimate if the exact amounts are not known
Loan Term Remaining	Enter Years / Months
Are there any cost benefits achieved by refinancing the loan or by debt consolidation?	<ul style="list-style-type: none"> • Yes • No
<p>If No is ticked, the below displays:</p> <p>This refinance doesn't give you any real cost benefit. Why do you want to refinance?</p>	<ul style="list-style-type: none"> • Convenience • Greater flexibility • Extra features • Other (with corresponding free-form text box)
I have discussed that any lender's mortgage insurance (LMI) paid on the loan being refinanced may not be refundable. Each applicant understands and is still happy to proceed.	Yes - Acknowledge the declaration
I have discussed that the term will be longer and each applicant is likely to end up paying more interest in total. Each applicant understands and is still happy to proceed.	Declaration applies when the new loan term is longer than the existing remaining loan term Yes - Acknowledge the declaration
<p>Refinance/Debt consolidation where the new loan term is longer than the remaining term of the existing loan (30 years is used for “Equity Access”):</p> <p>Why is the applicant requesting a new loan term that is longer than the remaining term on their existing loan?</p>	<ul style="list-style-type: none"> • Lower repayments • Other (with corresponding mandatory free-form text box)
I have discussed that if each applicant can't make the repayments, the asset being used as security may be at risk. Each applicant understands and is still happy to proceed.	Declaration triggers if Refinance/debt consolidation where the previously unsecured debt to be secured over the asset ie. clearing in full or partial from this loan Yes - Acknowledge the declaration

Mixed Purpose Loan

KEY CHANGES

- There are some additional declarations being added for broker-introduced home loans
- The wording of the existing questions and declaration for broker-introduced home loans has changed slightly

A “mixed purpose loan” is one partly for personal, domestic or household purposes (where interest paid will usually not be tax deductible) and partly for business or investment purposes (where interest paid will often be tax deductible).

Question / Declaration	Selectable Options
Would the applicant consider separate loans accounts, one for each purpose?	<ul style="list-style-type: none"> • Yes • No
When No is answered for the above question: What are the applicant’s reasons for a mixed purpose loan in light of the possible complications in claiming a tax deduction? (multiple options can be selected)	<ul style="list-style-type: none"> • Cost saving (with corresponding free-form text box for details) • Easier to manage • Advised by tax adviser • Other (with corresponding mandatory free-form text box)
I have discussed that there may be possible complications in claiming tax deductions. Each applicant understands and is still happy to proceed.	<ul style="list-style-type: none"> • Yes - Acknowledge the declaration
I have discussed whether each applicant has either obtained tax advice on the structuring of the loan(s) or considered the issue & decided they do not need tax advice. Each applicant understands and is still happy to proceed.	<ul style="list-style-type: none"> • Yes - Acknowledge the declaration
I have discussed having separate loans, one for each purpose. Each applicant understands and is still happy to proceed.	<ul style="list-style-type: none"> • Yes - Acknowledge the declaration
I have discussed that I am unable to provide tax advice and should seek independent advice. Each applicant understands and is still happy to proceed.	<ul style="list-style-type: none"> • Yes - Acknowledge the declaration

Other R&O

KEY CHANGES

- If the customer has other requirements and objectives that have not already been covered or discussed in the R&O questions, enter a clear, concise summary in the textbox to outline the details.

Question / Declaration	Selectable Options
Does the applicant have any other requirements and objectives?	<ul style="list-style-type: none">• Yes (with mandatory free-form text box for details of other requirements and objectives)• No