

HUME BANK LIMITED

**BROKER GUIDELINES
(FOR EXTERNAL USE/
PUBLICATION)**

AMENDMENTS

This document is owned by Chief Risk Officer and will be reviewed every year and at other times following significant structural and functional change within Hume.

Record of amendments

Version No.	Date of Issue	Remark
0.01	1 March 2021	New version created, as significant changes have been made to the previous procedure
0.02	September 2021	Updated
0.03	October 2021	Increase interest rate buffer to 3.00%
0.04	September 2022	Annual Review, floor rates and retirement age.
0.05	July 2023	Bringing into line with Retail Guidelines Inclusion of changes to enable CCR (Comprehensive Credit Reporting) Changes to allowable income More clarity in what is allowed, and what is outside guidelines. Requesting more information in notes sections Employment Verification changes Valuation Validity Timeframe

Stakeholder Consultation

(Include all internal stakeholders impacted by change to process or procedure, including Risk and Compliance, Learning & Development and other Departments as required)

Role	Date	Remark
RMC, Sales and Service, Operations	2/12/2020	Final circular confirming acceptance
Sales and Service, Operations	07/09/2021	Final circular confirming acceptance
Sales and Service	21/10/2021	Email advising change
Sales and Service	16/09/2022	Email advising change
Head of Southern & Third Party Distribution	30/8/23	
Head of Credit and Financial Risk	29/08//2023	

Procedure Approval

Document Owners must ensure the relevant approvals are received and retained (refer to the Review Process in the Policy & Procedure Review Process Procedure for further information)

Role	Date	Remark
Chief Risk Officer	4/12/2020	Approved
Chief Risk Officer	07/09/2021	Approved
Chief Risk Officer	26/09/2022	Approved

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1 Purpose of this document

1.1 General

Credit Procedure documented in this procedure apply to Consumer products for the Broker Channel.

2 Principle based lending

For Hume to facilitate a prudent lending environment it applies five credit principles:

- 1) assess counterparty character - Hume will assess the credit character or integrity of the counterparty for willingness to repay.
- 2) assess capacity to repay – Hume will lend responsibly and confirm that the counterparty has the capacity to meet its contractual obligation.
- 3) assess credit risk - Hume will assess credit risk and plan for the possibility of default.
- 4) comply with legislation and regulations - Hume will use systems and controls to ensure that it continues to comply with all current relevant legislation and regulations; and
- 5) Identify, monitor & report - Hume will be active in identifying, monitoring, and reporting credit risk.

3 Home Loan applicants

Acceptable borrower and guarantor are below:

- Australian citizen or permanent resident.
- Other permanent visas acceptable providing at least one other party to the loan is a citizen or Permanent Resident.
- Minimum age of borrower is 18.

In line with the Customer Owned Banking Code of Practice Hume will recommend that independent legal and financial advice to the nature and effect of individual guarantees.

3.1 Borrower or guarantor of convenience

Hume only provides credit to a borrower or take a guarantee from an entity (including a natural person) who is receiving a tangible benefit from the proceeds of the credit facility or loan.

Key definitions:

A borrower or guarantor of convenience is added to the loan application to provide serviceability and/or security but does not receive a tangible benefit from the loan transaction.

Tangible Benefit is met by borrowers achieving a beneficial interest in a credit transaction either by way of:

- joint ownership of the security or asset being purchased
- fair beneficiary of the proceeds of the loan, or in the purpose in which those funds are being used
- in the case of consolidation loans, reasonable equity in the amount of funds being consolidated

Key principles:

As Tangible Benefit is reviewed and determined on a case-by-case basis, with the following criteria to be met:

- borrower has clearly stated the purpose and allocation of how credit funds are to be used or applied
- an assessment (and documentation of) of how each of the borrowers or guarantors will receive a proportional benefit to the level of debt. Direct benefit in the transaction may be by the way of improved financial position or provision of a household.
- in the case of debt consolidation – adequate investigation and review to establish the existing debts are proportionately shared between two borrowers to establish benefit.

The only exception to this requirement for Tangible Benefit is a Family Pledge Loan.

4 Unacceptable Borrowers / Guarantors / Borrowing Purposes / Income Types

The following borrowers/guarantors, borrowing purposes and/or income types are unacceptable and cannot be used:

Unacceptable Borrowers/Guarantors	Minors - A natural person under the age of 18.
	Borrower or guarantor of convenience - Is a borrower or guarantor that is added to a loan application to provide serviceability and/or security however does not receive a tangible financial benefit from the loan transaction.
	A Bankrupt - An individual that is an undischarged declared bankrupt or have a judgement pending in a bankruptcy case.
	Borrowers under a personal debt agreement (e.g., a Part 9/IX Debt Agreement).
	Companies or trusts involving disqualified directors.
	Commercial lending to borrowers in the industries where it deemed to be high risk (e.g., franchises, vineyards, textile manufacturing, capital intensive start-ups).
Unacceptable Borrowing Purposes	Illegal activity.
	Loan to meet cost of living or term loans for taxation liabilities.
	Consumer loans where the predominant loan purpose is for business lending (greater than 50%).
	Business loans with predominant loan purpose is for personal lending (greater than 50%).
	Consumer loans for commercial construction.
	Legal Fees
	Consumer loans for residential properties (including the construction of) for 3 or more dwellings regardless of the number of property titles they are on).
Unacceptable Income Types	Business loans to meet cost of living or personal tax obligations.
	Unemployment benefits (i.e., Newstart, jobseeker).
	Workers' compensation/income protection (the exception to this is when they are a joint borrower, and an unconditional letter for the insurer is held confirming on-going payment of the compensation to applicants' retirement age).
	Sole reliance on income from government allowances.
	Income from boarders.
	Income which cannot be verified (e.g.: overseas/ foreign income).

5. Assessment process

Assessment of a loan application, whether it be it for a new loan or an increase in an existing facility, be undertaken in a diligent and prudent manner considering appropriate regulatory guidelines, including responsible lending requirements.

The primary focus is to ensure the applicant has the right product, the willingness and ability to service the commitment without cause or contributing to hardship, based on the applicant's circumstances at the time of the application.

It is a requirement of the National Consumer Credit Protection Act 2009 (the Act) that Hume, as a credit provider, makes an assessment that any credit contract to be entered into by the applicant with Hume, or any increase in credit on an existing contract, is not unsuitable.

Action	Area to cover	Comments to address
Make Enquiries	The applicant's specific requirements and objectives and how this product offered will meet these.	Establish that the applicant can meet their obligations under the contract and can do so without undue hardship. Establish that the product is not unsuitable.
	The applicant's current financial situation and post funding position.	The information obtained accurately reflects the situation of the applicant's capacity to meet the settlement obligations and on-going requirements of any additional liabilities or commitments.
	As to whether the applicant is aware of any known changes in the future to their financial situation that would adversely affect their ability to service the loan.	Any changes disclosed it to cover how the applicant intends to service the loan during that period.
	An applicant/s balance sheet or income/expenses do not substantiate their overall financial situation. For example, high income and large surplus but borrowers do not have assets, saving or equity.	Obtain evidence to support why there is a misalignment. e.g., superannuation statements to prove balance of super held, or copy of rates notice to prove ownership of any property held if relying on sales. Provides evidence to substantiate the information to support the decision.
Retain Documents	All income used in calculating borrowing capacity must be held on file and commented on. Only income which is verified as on-going can be considered in assessing capacity to service.	Provide evidence to substantiate the information, and documents provided to support the decision.
	Obtain credit report/s for all borrowers and guarantors and annotated. All directorships are to be noted and commented on.	Provide evidence to substantiate the information, and documents provided to support the decision.
	All documentation is verified true and accurate and not falsified,	To minimise the risk of fraudulent claims.
Add Commentary	Where required add additional commentary to support the decision	To substantiate the decision.
Review Data input	Review the data captured for errors and missing information.	Minimise the amount of rework to system, and contracts and to inform decisions on product, pricing and process.

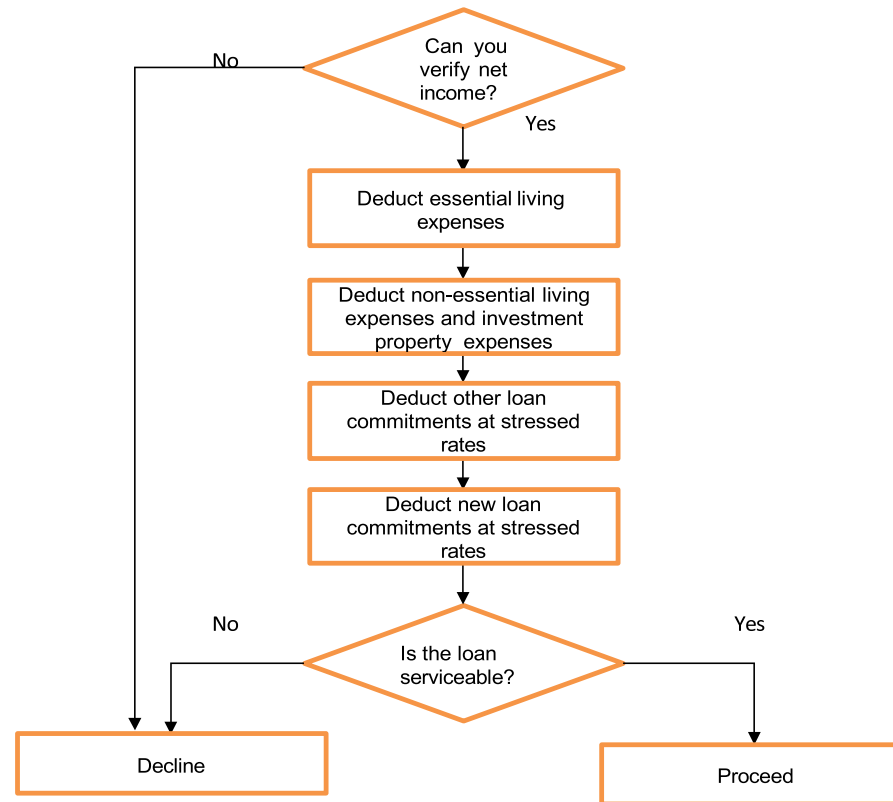
Note: Customer financial information must be obtained in line with the Privacy Act and Internal procedures.

Approvals are valid for a maximum period of 90 days from the date of conditional approval or approval.

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., discussion with customers to confirm living expenses (general and non-essential expenses), current assets and liabilities, on-going employment, updated payslips, statements, updated privacy to enable a new credit check to be completed and documented discussions about any anticipated changes to circumstances which may affect affordability over the next 6 months.

6. Assessing ability to repay

In the assessment of servicing, it is critical to ensure that the servicing position is detailed, and on which the loan is assessed, is representative of the position going forward. Assessment of affordability should not solely rely on historic information as the customers may have changed or they may be aware of future changes on circumstances. The flowchart below outlines the process used to establish whether a borrower can repay their credit commitments, as well as meet their ongoing personal living expenses, both essential, non-essential and any investment property expenses with a net surplus of at least \$200 per month.



Regardless of if capacity to service calculation is positive, ability to repay must be demonstrated through the account conduct.

7. Verification of income

Do not include income in the serviceability if it is not verified.

The following provides the income types, verification, and weighting:

Income Types	Verification	Weighting %
Employment Income: Permanent full-time employment Permanent part time employment Full time temporary employment Salary and wage employees	Require 1 pay slip (no older than 30 days) and confirmation through transactional account of income for last 3 months (provided as part of living expenses). If employment has been held for less than 6 months, then a letter/email from the employer (on letter head) can be provided to confirm on-going employment. If employment is less than 3 months, Copies of employment contract are to be provided to confirm terms and dates of employment. Additional information may be requested if there is deviations that affects serviceability of the loans. For example: Overtime and shift allowances – Comments must be made around how regular they are, are they expected to continue, etc. See commission/bonus, overtime and allowance sections below.	100% From October 1st each year, 100% of gross or net income excluding overtime allowances and commissions when in current employment for greater than 6 months. Before October 1st, use average of previous 3 months net wages excluding overtime allowances and commissions as shown in account statements

Income Types	Verification	Weighting %
Commission and bonus payments	Commission can be accepted provided: Taxation returns / assessments notices for last financial year are submitted. Commission can be confirmed as a regular and commensurable with the profession and locality. Confirm that they were expected to be on-going.	75% of the minimum received over the most recent in 2-year period.
Shift Allowances Shift allowances recognise that the time the work is performed (the shift) imposes some burden and/or disadvantage on the worker, which should be compensated by way of an extra payment (the allowance) that is additional to ordinary wages.	Condition of employment and industry standard and confirmed as regularly paid (verified on payslips).	100% of gross
Overtime essential services	Overtime and shift allowances - Comments must be made around how regular they are, are they expected to continue, etc. Essential services are: • Healthcare including doctors, nurses, and medical professionals. • Frontline and key workers in healthcare, outpatient, residential/age care, social assistance, and disability support services. • Police Officers, Fire Fighters and Rescue Employees. • Paramedic and Ambulance Officers. • Australian Border Force Employees. • Australian Defence Force Employees.	100% of gross

	• Corrective Services employees within correctional centres, detention centres and prison services. • Primary and Secondary teachers along with Pre-school educators for kindergarten and child-care services	
Overtime - Non-essential Services	Overtime and shift allowances - Comments must be made to confirm they it will be regular and on-going.	80% of gross received over last 3 months.
Salary Sacrifice for PAYG employees	When a borrower uses salary sacrifice, there must be notes as to where the salary sacrifice is going, and verification of this. For example: if it goes back into the borrower's bank account or to another loan. Or to a "meals/ entertainment card", it needs to be verified through bank statements or a letter from the employer. Note: any loan commitments where salary sacrifice is used must be included as an existing commitment to calculate servicing.	100% If salary sacrifice is present, use the net figure. If the customer has verified that this can be stopped at anytime, add the sacrificed amount into the calculator.
Casual employment	Require 2 recent payslips slip showing year to date (YTD) (no older than 30 days) If employment has been held for less than 12 months, then a letter/ email from the employer (on letter head) can be provided to confirm on-going employment, overtime & shift allowances, and 100% of gross YTD income to be used. If employment has been held for less than 6 months, then a letter/ email from the employer (on letter head) can be provided to confirm on-going employment, overtime & shift allowances, and only 80% of additional income to be used. Note: With all casual income, the servicing calculator will automatically shave the income to include 4 weeks of annual leave.	If employed greater than 12 months, then YTD annualized over 48 weeks. If employed less than 12 months but cgreater than 6 the 100% annualized over a 48 week year based letter/email minimum amount confirmed by from employer. If less than 6 months then annualized to 48 weeks only then hair cut to 80%

Income Types	Verification	Weighting %
Investment property income Rental Income from a property asset	Rental income is to be verified by way of: - Rent statements for previous 3 months. - Previous year's tax return. Care should be taken for rental guarantees, as they are typically reflected in the price, for a limited period and higher than market rent. This includes the costs for holding property costs (rates, water, landlord insurance, strata fees, utilities, etc.) and renting (real estate management fees). For properties being purchased the following could be received to support net income: a rental appraisal/valuation, confirmation of strata costs, council fees/rates and expected other costs.	80% of gross income for standard residential leased properties. 65% of verified income for short stay/airBnB, serviced apartments etc. Monthly Residential Rental income is capped at a 6% gross yield for residential rentals. Evidence of extra expenses must be included in CSLE as a separate line under rental expenses or captured in the rental expenses cell of the servicing calculator and noted as either verified or unverified . This is to include the costs for holding property costs (rates, water, landlord insurance, strata fees, utilities, etc.)
Contract employment where employee pays their own tax or employer pays tax	A min. of 12 months in the current position. Caution needs to be exercised to establish if the contract is renewable or ongoing. The contract will assist in understanding tax payment, holiday allowances, superannuation payments, sick leaves, i.e., what is included and is not. Receipt of 2 years of financials including tax returns to understand income so consistent income can be used.	100% consistent income (which is the lower income of the last two years).
Superannuation Pensions and Annuities	Superannuation statements showing balance and income stream. Comment is to be made about how "sustainable" the income is with consideration to the loan term.	100% of regular sustainable payments
Dividend income from shares or similar	Shareholder dividends can be included as income when calculating capacity to service. The following must be provided: - A current dividend statement (no older than 6 months old) is to be provided. - A comment to confirm the borrower's intention to use shares as ongoing income or for clearance of debt.	Dividend income is calculated as follows: Dividends – unfranked: plus Dividends – franked; Then sensitized by 75%.

Income Types	Verification	Weighting %
Social security benefits Age Pension & Pension Supplement Veterans Affairs Pension Carer Payment/Career Allowance Disability Support Pension Mobility Allowance Rent Assistance Child Support Income	Benefits where it is considered permanent for the next 3 years. Family court maintenance, CSA agreements is to be verified through 6 months bank accounts and confirmed with borrower that it is ongoing. When Aged pensions are the only source of income, the maximum amount of pension income that can be used to service all loan commitments is 10%.	100% of Gross
Social security payments for families Family Tax Benefit Part A Family Tax Benefit Part B Parenting Payment Paid Parental Leave Pay Child Care Benefit Child Care Rebate	The Government Online Estimator can be utilised when applicants claim their family entitlements annually or if their circumstances have recently changed. The income level entered in the calculator must be evidenced by documents provided for verification of income. When Benefits Calculator is used the income is confirmed with customer	100% where it is considered permanent for the next 3 years.
Paternity leave	To be used as part of a joint application only- If returning to work in 3 months or less, a letter from employer stating return to work date, minimum hours and minimum wage. Full income can then be used for servicing. If over 3 months, can't use future income. However, if they have savings (or other form of income, e.g., Paid Parental Leave from Employer or Government Paid Parental Leave) to use until the borrower gets back to work, we need something in writing from customer stating fallback plan (i.e., how they will pay for the loan each month while in a negative servicing position).	100% of the regular payments

Income Types	Verification	Weighting %
Self-employed and business applicants sole trader, partnership, company, trust Note: After January 1st each year, the latest year's returns will be required. Returns from 2 years ago will <u>not</u> be accepted.	2 most recent year's personal tax returns and financial statements including Profit & Loss and Balance sheet statements. Tax returns are to be no greater than 12 months old for loans that require mortgage insurance or 18 months for other loans. - If the business has not traded for 2 years, it may be necessary to assess ability to repay from interim financials prepared by an accountant. If interim financials are being assessed, at least one full year's annual statement is to be held to enable comparison. - Up to date ATO portal statements for a 12-month period and Business Activity Statements (BAS) for period/s subsequent to most recent tax return is to be provided. - All significant variations in turnover / net profit greater than 20% are to be explained in the loan summary.	100% of Net Profit from latest financial year or 120% of previous financial year (refer below comment on Cashflow Boost or Job keeper), whichever is the lower. If the loan requires LMI then depreciation add back is not to exceed 20% of Net profit before tax. If borrowers are 100% owners of a Company Servicing then it must be assessed on an overall group perspective including when addback is required. As such, Company liabilities are to be expensed into the borrower's borrowing capacity (and loan repayment sensitised), and all relevant add backs included. Servicing is to be demonstrated on company and individual basis. If 2022 financials do not include Cash Flow Booster & Job Keeper, we can allow 2021 & 2022 financials to be used and not discount Cash Flow Booster & Job Keeper. The same applies for 2023 financials with reference to 2022 financials containing Cash Flow Booster & Job Keeper. This is to be supported by interim figures from an accountant for the current financial year.

Income Types	Verification	Weighting %
Self-employed and business applicants sole trader, partnership, company, trust Note: After January 1st each year, the latest year's returns will be required. Returns from 2 years ago will <u>not</u> be accepted.	Applicant ownership is 25% or less Where an applicant earns income from a business where they have an ownership, however less than 25%, they applicant is still considered to be self-employed for the purposes of the application. There is still the requirement to obtain the financial statements of the business to confirm the viability of the income. However, servicing can be based on the personal tax return and payslips.	100% of Net Profit from latest financial year or 120% of previous financial year (see above for Cashflow Boost and Jobkeeper income), whichever is the lower. If the loan requires LMI, then depreciation and other add backs are not to be used The percentage of NPAT that aligns with the shareholding of the borrower if not already received either directly or via a trust. A 20% shareholder would receive 20% of the NPAT No Addbacks such as depreciation or interest etcetera are to be used...

All tax file numbers must be removed from any retained applicant documents. Tax file numbers will appear on personal and business tax returns, tax office notices, BAS, Tax portals, payment summaries and some superannuation documents.

8. Additional Information for self-employed and business applicants

Interim financial statements / management accounts can be provided to support an application however they do not necessarily report as at a particular point in time as regular statements do. Therefore, it raises the following issues:

- The business, rather than its accountant, may have prepared interim accounts using different accounting standards and techniques.
- Direct comparison is hindered by differences in time periods covered.
- Items may be missing (e.g., depreciation, interest, director payments/salary's may be shown annually, but not incrementally).
- Short periods may introduce inaccuracies (e.g., directors' wages drawn irregularly).
- Seasonal factors may have inflated or deflated specific figures (e.g. rural business with bulky seasonal payments such as crop or livestock sales)

If you consider an interim statement to not be representative, you should:

- Disregard for servicing calculation or consider it jointly with other information presented; and
- Seek additional information to substantiate specific figures (e.g., obtain a cash flow forecast to confirm that an increase in sales is likely to continue).

a. *Determining net profit from trading results*

Adjustments to Net Profit	Category	Treatment
Add backs	Motor Vehicle allowance & Interest expenses	Allow max \$5,200.00 per application per year (or amount in P&L if lessor) for all business entities (companies, trusts, sole traders, partnerships) if CSLE include costs for a motor vehicle. This includes Bank interest and finance lease costs.
	depreciation	Depreciation is the non-cash expense to the business for using an asset over its useful life which is reflected in the profit and loss. As debt will be repaid by the business cash-flow rather than the net profit figure, depreciation expenses can be added back to the net profit. However, assets do require replacement, and this is a cost to the cash flow as the business needs to ensure that sufficient cash is held back to pay for this. When adding back depreciation this needs to be taken into consideration. Depreciation should not be the majority main source of serviceability for a loan (as a proportion either to Net Profit or loan commitments). For LMI loans, a Max. of 20% of the value of net profit can be added back in the form of depreciation.
	extraordinary expenses	If the expense is one off (i.e., has occurred in one accounting period only and will not reoccur in future), you may add it back to net profit. However, when you do the application needs to justify this decision. If there is corresponding income generated directly from the expense it should be deducted from income.
	additional superannuation	If the borrower (for example the director) has made lump sum or regular voluntary super contributions in excess of the Min. statute requirements, then these extra amounts can be added back in most cases if the borrowers confirm if these are discretionary and can be ceased at any time.
Deductions	business taxation	Business taxation is an annual expense, which does not usually appear in the profit and loss statement.
	extraordinary income	If the financial statements show any extraordinary income before net profit, you must reduce net profit by that extraordinary income. Extraordinary income is any income that occurred in a single accounting period e.g., profit on the sale of an asset, a large one-off contract, etc.

Regardless to the net profit figure, if capacity to service is not demonstrated through their accounts then servicing has not been established

9. Loan past retirement age and clearance

If the loan is for purchasing or refinancing an Owner Occupied Property, and the servicing assessment relies on the applicant's wage or salary income for repayment ability and the loan term exceeds retirement age, the loan comments must cover the discussion held with the applicant of their plan to repay the remaining balance post-retirement (i.e., how the loan will be serviced or repaid from the time that the borrower retires).

For all applicants 45 years or older and the loan term will take the customer past the age of 67 (current age to be eligible for the Aged Pension) then a suitable exit strategy is to be documented, with the following criteria applicable:

- o Exit strategies need to be applicable from the planned or assumed age of retirement (maximum age 70 years).
- o Exit strategies must not be applicable within 5 years of settlement.
- o Borrower's age must not exceed 90 years at the expiry of the loan.

Exit strategies must be 'Owned' by the borrower and not directed by a lender or a 3rd party. This is to ensure that the borrowers understand their responsibilities and acceptance of the strategy and that it suits their future objectives. This may include the applicant's plan to downsize and/or repay the future debt balance with current superannuation entitlements and/or their intention to sell property assets.

The following principles are used when assessing downsizing exit strategy:

- the type of property intended to be purchased is assessed at current market values.
- the applicant needs to be able to purchase the new property and extinguish all debt on the existing property
- the loan size at the time of exit can be assessed at the amortised value at the point in time they intend to downsize, based on minimum contractual repayments.
- no capital growth should be assumed in the property they are selling or purchasing for exit/downsize.
- care is required where the loan is secured by an owner-occupied property which is the applicant's main asset
- exit strategy plan, is detailed including the above and showing timeframe, expected purchase price point and general location, and aligns with applicant's requirements and objectives.

If an applicant states that superannuation will be the clearance source for debt, then the Lender is to document the discussion with them on how 'reasonable' the residual amount of superannuation will be after repayment of debt.

Proof of Superannuation balance is to be supplied at time of assessment and **commentary is not to include assumption on future balances**. Customers are to be advised to seek financial advice of this if this is the exit strategy and in some cases this maybe a condition of the loan.

10. Personal living expenses

For all applications, customers are to provide Hume with their estimated monthly living expenses. This is referred to as the Customer Stated Living Expense (CSLE).

The customer's living expense represents the amount of money that they need to maintain their reasonable/realistic standard of living. Expenses must also include any expected new expenses related to the loan, such as home insurance and land rates where the loan purpose is to purchase a property.

Rental and board expenses are to be added separately in the servicing calculator. Board is to be either recorded as \$125 per week or actual amount, whichever is higher.

Personal living expenses are to be categorised into the essential living expenses, non-essential living expenses and Investment Property Rental.

Category	Commentary	Examples
Essential Living Expenses	These are expenses to cover their basic living costs, noting that borrowers will spend different amount to cover their basics.	- Owner occupier housing costs (for example insurances, rates, water, repairs, and maintenance) - Food, clothing, and personal items - Utilities - Transport and related costs such as registration of vehicles and compulsory insurances (noting there maybe multiple vehicles, trailers, boats, caravans etc) - Basic health and education expenses - Childcare - Communication and connectivity
Non-Essential Living Expenses	Unique and/or ongoing expenses not covered by an essential expense category are to be included separately as additional expenses to the HEM.	- Private schooling - Personal insurance (including life, income, Total Permanent Disablement "TPD" and health insurance) - Additional superannuation contributions - Non primary residence costs - Additional houses, for example, a holiday house. - Insurances for additional assets (such as additional vehicles, caravans, boats etc.) Child maintenance costs - NSW First Home Buyer Choice- if the property tax option has been chosen, an ongoing commitment must be captured and notes included - Child maintenance costs
Investment Property Expenses	For each investment property, the costs for holding and renting the property are to be collected separately. If the purpose of the loan is for investment property, then a realistic amount is allocated for each expense, this is to be confirmed with the borrower.	- Each property is to have the following expenses itemised: body corporate, strata fees, building and contents insurance, property levies, repair and maintenance, and interest. Excludes depreciation.

a. Calculation of income banded Household Expenditure Measure living expenses

The income used for the Income Banded Household Expenditure Measure (HEM) living expenses consists of all reported income from the borrowers. HEM is defined as the median spend on absolute basics plus the 25th percentile spend on discretionary basics. The purpose of this calculation is to provide an estimate on Essential Living Expenses. This calculation does not assess variability or sustainability of their income or expense streams, so it does not have haircuts or sensitised percentages applied.

The income to be used is the before tax / pre-tax income from all sources, which includes.

- o Gross income from salaries, wages, bonuses, overtime, etc.
- o Net income (refer to attachment 1) from property investments and then subtract the loan interest costs based on actual rates. For existing investments, verify customer stated expenses against their Income Tax Return. For new investment properties use expected cost for each category and check to make sure they are realistic. The strata fees are to be verified though the valuation or contract of sale.
- o Profit / loss from own business (excluding Pty Ltd Company.) and any add backs used.
- o Government pensions and allowances
- o Private transfers (e.g., superannuation, workers' comp, income from annuities, child support)

For example:

- o gross PAYG income of \$80,000.
- o Plus: property rental income of \$26,000 pa (or \$500 per week)
- o Less: Investment Property Expenses from the investment property (strata fees, maintenance etc.) of \$10,000 pa.

- Less: Interest on Investment Property Loan \$5,000 pa.

The resulting figure to be allocated for the HEM income band is (\$80,000 + \$26,000 - \$10,000 - \$5,000) equals \$91,000.

b. Review of living expenses

Item	Action	Objective
Credit Report	Review the CCR to check if the enquires align to the outstanding liabilities reported by the borrowers.	Identifies any undisclosed debts or defaults.
Account Statements	Brokers/ broker staff to complete an assessment of the CSLE through a borrower's day- to-day transactions over a 3-month period. Sufficient commentary is to be left regarding ongoing expenses, but non-ongoing/ once off/ non reoccurring seasonal expenses are to be excluded. The higher of CSLE, living expenses verified via an account sweep or HEM is to be used.	Confirms that the transactional statements support the disclosed living expenses and affordability
	Review regular repayments, dishonour charges, arrears, late payments or undisclosed debts.	Confirm the expenses disclosed and identifies undisclosed debts, or an unexplained large transaction
Commentary Required	After a review of the living expenses, document a discussion with the borrower to confirm the stated living expenses.	Provide confirmation that the Broker has reviewed expenses and borrower confirmed for living expenses as realistic.
	Any variances from borrower stated living expenses to what is being seen through the account or credit report is to be discussed with the borrowers and clarified with comments in the application. This is to include discrepancy, unusual transactions or undisclosed payments are to be discussed.	Ensure that any undeclared expenses are explained and captured appropriately.
	For new investments, details discussion of what the borrower expects to spend in each category will be required and that amount should be entered.	To ensure realistic costs have taken into consideration
	If the essential living expenses reported by the borrower are less than 85% of HEM then additional comments are required, documenting a discussion with the borrower to support the states living expenses.	This is to confirm that realistic living expenses have been recorded for the borrower.
Additional living expenses	Where a proposed loan would affect the borrower's ability to pay non-essential expenses additional information from the borrower is to be obtained and recorded	To document the reason why it is important for the expenditure continue and if the expense could be forsaken without personal hardship.

The use of HEM benchmarks is not a substitute for Hume to make reasonable enquiries of a borrower's expenses. It is a guide for the provision of realistic borrower estimates.

The higher of either the HEM (based on their income and dependents), declared essential expenses or assessed figure through their transactional accounts is to be used for servicing.

c. Treatment of joint living expenses

When a single borrower application is taken from a borrower who is part of a household the living expenses can be calculated as follows:

Household income basis:

- If both partners' verified incomes (refer Verification of Income) are then use the HALE based on household income band and joint living expenses, then can be allocated within the household.
- The allocation is based on the applicant's verifiable income as a percentage of the total (applicant plus partner) verifiable income – for example, an applicant on \$40,000 with a partner on \$200,000 will be $40/240 = 17\%$ of living expenses can be used.
- Reliance on partner is capped at 50% of living expenses and joint commitments.
- As Hume will be collecting the partner's income details and using this for living expense allocation the application documents are to include:
 - a privacy consent signed by the non-borrowing partner;
 - confirmation that both parties are responsible for joint commitments; and
 - Confirmation that from both parties that the CSLE is accurate.

Single income basis - If partner's income is unverified then **only the applicant's income will be used to determine the living expenses and commitments value.** The applicant's income is then treated as the only income in the household from which all household expenditures are to be paid.

11. Investment gearing

The investment gearing position is to consider the tax impact of property investments. Positive and negative gearing have a different impact on the borrowers after tax income available for serving.

Positive gearing where the income for the property is greater than the interest payable on borrowed funds and any expenses incurred in relation to that investment. This indicates the investor has surplus income, which is taxable, and can be used to fund other expenses.

Negative gearing where the interest payable on borrowed funds and any expenses incurred in relation to that investment exceeds the income received from the investment. This indicates there is surplus income from other sources over and above their day to day living expenses to meet the shortfall.

Gearing a property can offer a taxation reduction to the borrower. The tax benefit gained from the use of deductible interest may be included for servicing assessment for applications. However, it requires confirmation with the borrower prior to adding the tax deductibility of the interest component.

Note: Negative Gearing Benefit on vacant land or non-income producing assets is not acceptable.

12. Borrowers contribution for Home Loans

A customer's savings pattern should be referred to within the loan application showing demonstrated genuine savings of a minimum 5% of the proposed loan amount, which is to have been held for a minimum of 3 months.

Topic	Detail
Genuine savings	Genuine savings must be held in the borrower's name and will be defined as: - Funds held or accumulated in savings accounts for 3 months or more, with no lump sum or unusual deposits (large deposits may be acceptable if investigated and explained satisfactorily); or - Equity in residential property; or - Term deposits held for 3 months or more; or - Shares held for no less than the last 3 months; and - Where potential savings have been sacrificed by making accelerated loan repayments over the last 3 months. In these circumstances, the existing savings plus the value of excess loan repayments must be equal to or greater than the minimum savings required.
Non-genuine savings	Non-genuine savings is defined as: - Gifts or inheritance; or - Proposed savings plans or Rental Purchase Plans of any kind; or - Sale of assets (other than real estate) for example, motor vehicles; or - First Home Owners Grant (FHOG) or other Government Grants; or - Funds held in company/business accounts - The proceeds of a personal loan; and - Builder's or vendor's rebate/incentive

13. Cost of credit commitments

a. Verification of borrower's liabilities

Verification of the applicant's liability of completed via:

- Declarations made in their loan application, and
- Review of the account statements, and
- Credit enquiry through a credit-reporting agency

Caution should be exercised where obligations have not been declared in a loan application. A contingent liability is one which does not exist at a point in time, but which can be recognised at that point in time as potentially coming into future existence, depending on the outcome of some other events

b. Provision of loan account statements

Part of the assessment process is to confirm current commitments, evidencing both the outstanding liabilities/limits and acceptable loan conduct. This is done as follows:

Comprehensive Credit Reporting (CCR) and Account Statements	
CCR compared against Statement of Position.	CCR account data it to be compared against the declared financial position in the loan application. Any discrepancies relating to account limits and any undisclosed accounts will need to be included in the servicing calculation. Also, these discrepancies are to be noted in the comments section in the application.
Comprehensive Credit Reporting - Repayment History Information (CCR RHI)	CCR RHI information will be reviewed to confirm acceptable conduct is evident on all accounts (including any account being refinanced). Where the Other Financial Institution (OFI) is a participant of CCR, and reporting is available: • Statements will not be required where the current Lender fully participates in CCR. • Acceptable conduct means CCR showing the last 12 months repayment history with no arrears, defaults, or late payments. Any signs of financial stress shown in the CCR RHI needs to be discussed with customer and commented as to how this is no longer impacting their current financial position and ability to repay.
Comprehensive Credit Reporting - Financial Hardship Information (CCR FHI)	CCR FHI information will be reviewed on all accounts held over the last 12 months (including any accounts being refinanced). Any new financial hardship arrangement approved after 1 July 2022 will be captured and remain visible for 12 months after the assistance has ended. This reporting will assist Hume Bank to ensure any additional lending to a customer will not cause them financial difficulty. It is not used to calculate an individual's credit score (Equifax) or as the sole reason to decline a loan request. If the customer advises Lender of hardship during the application process, then the following notes are to be included on the file: • what the hardship relief was for • whether the hardship event has resolved • why the customer thinks this loan will not lead to further financial hardship, and • provide additional comments to record their continuing support of the application. If shown in the last 12 months, then this is to be reviewed by the Credit Analysts for approval. If the customers did not advise of recent hardship history and it appears on a credit report during assessment during the application process, this is to be noted in the application as an undisclosed liability.
Refinances - Manual Loan Statement Review	Account statement for loans which are to be refinance are to be requested when one of the following situations occurs: 1. There the institution does not participate in CCR. 2. The credit report does not contain any repayment history information. 3. Hardship arrangements have been entered into; or 4. Loan has a high-risk indicator: • DTI greater than 6 times • High LVR (greater than 90%) • Servicing surplus less than \$200 pm Where requested, and if not available on CCR, statements should cover a 3-month period and show no dishonoured/missed/late repayment or over the approved limit per loan application (not per account being refinanced) which was resolved in less than 30 days or by the next scheduled repayment. The most recent statement should be no more than 30 days old as at date of submission. A bank statement can be considered acceptable where 3 full months' repayments have been observed. The format of the account statement is to show: • Name of account holder • Customer address • BSB and account number • Dated transactions • Running balances. The following are examples of unsatisfactory repayment history (unless Hardship has been entered into); • A facility being over the approved limit. • A missed loan repayment remains unpaid. • Dishonoured/missed/late repayment or over the approved limit during the last 3 months.

Bank statement requirements – OFI not participating in CCR	Part of the assessment process is to confirm current conduct of accounts, ability to meet commitments by evidencing the most recent 3 months: • Home and Investment Loans/Line of Credit • Personal Loans • Credit and Store Cards showing limits and transactions • Overdrafts/unsecured lines of credit The following are examples of unsatisfactory repayment history (unless Hardship has been entered into); • A facility being over the approved limit. • A missed loan repayment remains unpaid. • Dishonoured/missed/late repayment or over the approved limit. The format of the account statement is to show: • Name of account holder • Customer address • BSB and account number • Dated transactions • Running balances. Bankstatements.com can be used to obtain these. Excel transaction histories are not acceptable
Bank statement requirements – Transactional	Part of the assessment process is to confirm current conduct of accounts, ability to meet commitments by evidencing the most recent 3 months: • Transaction and savings statements • Overdrafts • Credit Cards The following are examples of unsatisfactory conduct history: • Overdrawing's which are not fixed within the next business day. • A facility being over the approved limit. • Dishonoured or missed/late repayment fees or over the approved limit. The format of the account statement is to show: • Name of account holder • Customer address • BSB and account number • Dated transactions • Running balances. Bankstatements.com can be used to obtain these. Excel transaction histories are not acceptable.

Hume will not refinance debts owing to another credit provider that are in arrears. A poor transactional or loan account performance history should be treated with extreme caution as this indicates either an inability to service existing commitments or a tendency to treat repayment obligations as having a lower level of importance than Hume requires from its applicants.

Under responsible lending a debt consolidation/refinance should support an improved financial position, the reason for how this debt was accumulated will be carefully examined, increasing unsecured debt may indicate the borrower is living beyond their means.

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

c. *Sensitised assessment rates*

To establish the cost of existing credit commitments the current amount and remaining term of all existing loans are to be determined, which are to be treated as follows:

Facility:	Sensitised Assessment Rate
Hume existing variable rate facilities and home loans held with other financial institutions	at 3.00% above current variable interest rate for that loan or at 6.5%, whichever is greater.
All fixed rate personal loans	no sensitivity as actual commitment used
Credit card/Zip Pay/store cards	monthly commitment is 3.80% of limit
AfterPay and other Buy Now Pay Later providers.	Average of last 3 months.
Hume business loan and Business loans held with other financial institutions - solely residentially secured	at 3.00% above the applicable rate or at 7.5%, whichever is greater
Hume business loan and Business loans held with other financial institutions - has commercial or rural security	at 3.00% above the applicable rate or at 8.00%, whichever is greater

Loans with 3 months or less remaining can be excluded from servicing providing applicants have sufficient cash resources remaining to cover these payments following settlement of new loan.

Interest only lending is to be assessed based on principal and interest repayments, over the remaining principal and interest term (i.e. excluding the interest only period).

14. *Loan terms*

These are the Max. terms only and subject to normal credit assessment and shorter terms may be approved:

Loan Type	Max. term
Residential and investment residential loan	30 years
Personal Loans - secured/unsecured	7 years
Personal Loans – term deposit security	10 years
Line of credit – residential security	25 years
Interest only – investment loans	5 Years

15. *Specific Types of Home Loans*

15.1 Residential construction loans

Construction loans are available for the purchase of residential land on which the owner intends to commence construction within 12 months of the settlement date. Construction must be completed within 12 months of the commencement of construction, which is referred to as the ‘construction period’.

Where a loan is approved to finance the construction of, or renovations or extensions to, a security property, the value of the security must be determined.

Main documents required for all construction loans:

- “On Completion” Valuation Report prepared by Panel Valuer. The valuer must be provided with the builders contracted progress payment schedule, building contract, building specification and plans.
- Fixed Price Builders Contract Parts 1 & 2 (if owner builder refers below for requirements)
- Council Approved Plans or Building Permit (required for all structural changes to properties)
- Builders’ construction insurance

Before loan funds are advanced, the applicant’s own funds are to have been contributed to construction. This is to ensure that sufficient funds are held to complete the construction.

The progress drawdowns are completed in line with the schedule of payments listed in the building contract. The industry standard benchmarks for progress drawdowns are to be adhere to (i.e., HIA standard 5 construction stages claim and percentages).

Front loaded contracts are challenging in the event the builder defaults before the property are completed. Progress payments are to be made at each stage of construction. An example of a standard schedule is as follows:

Stage	Milestone	Expected	Cumulative Total
Stage 1	Foundations/Slab (including deposit)	20%	20%
Stage 2	Frame	20%	40%

Stage 3	External lining	30%	70%
Stage 4	Lock-up/Internal lining	20%	90%
Stage 5	Practical completion	10%	100%

The schedule is considered acceptable if it is not front loaded. This can be determined by one of the following:

- The valuer comments that the progress payment schedule is in line with industry or is acceptable.
- The payments are not more than the cumulative totals in the above example.

Where there are more than 5 stages (up to 8 stages), consideration to the cumulative total at the specified milestones.

15.2 Owner builder

Owner builder applications, including owner builder or owner sub-contractor, traditionally have a disproportionate amount of overruns, they are more intensive to manage through the construction stage and they are more difficult to assess in the credit phase.

Applications can be taken for Owner Builders to a Max. LVR of 60%; this is to include a 10% contingency allowance based on the total building cost. When completing the funds to complete a contingency of 10% of construction costs is to be included.

When considering owner builder applications, you will need to obtain the following:

- Provision of council approved plans.
- Provision of building insurance.
- Provision of owner builder license or certificate (if available).
- Details of registered builder who will oversee the project (if applicable).
- Detailed costing/specifications for the project (including quotes for major items and appliances, which need to be purchased). Quotes/invoices are to be provided for all items. This is verified against the Owner Builder Checklist.
- Satisfactory on completion valuation completed by panel valuer regardless of LVR.
- Defined construction period which is to be covenanted/reviewed as a special condition.

Only consider owner builder applications **when the applicant has reasonable experience in a related trade** or preferably are house builders themselves.

15.3 Cash out/equity release loans/Top up loans

The following table provides cash out guidelines.

If any doubt to the accuracy of the purpose of funds exists, undertake further enquiry

Amount	Enquiry
Up to \$75,000	The purpose of the loan needs to be documented e.g., purchase new car or investing in shares. This is to include a discussion with the customer how long they expect to keep the item being purchased using the funds and document their response. It is important to take care to ensure the term of the loan relative to the likely useful life of the asset is appropriate and meets the customer's requirements and objectives. Exercise particular care if the customer advises that the item purchased will only have a short life expectancy compared to the remaining loan term. For example – would a personal loan suit their requirements and objectives better than topping up their mortgage.
\$75,000 plus	The applicants are required to provide specific details as to the purpose or use of the funds. This should be completed this should include a level to identify the specific purpose, including in the case of 'future investment' and the nature of the asset class being invested in.

In addition, if the purpose is for non-structural improvements to an existing residential dwelling held as security (or being taken as security) and where the additional finance sought is > \$75,000 and does not involve council approval then the applicant then the following is to be documented:

- The works which are to be completed (by whom) and of the costs
- Confirmation from the customer that Development Application (DA) is not required.

Note: if the cash out is for structural work or major renovations to the security property requiring a DA (including: building contract and valuation).

15.4 Bridging loans

A bridging loan is simply a short-term loan (up to 12 months) used to cover the financial gap between buying or building a house and selling an existing property.

Bridging loans generally therefore have a peak amount (i.e., when the new property is bought) and a ‘residual loan’ amount (when the old property is sold). Bridging loans must meet the serviceability criteria outlined below.

When the applicant sells the existing property, the proceeds of the property sale are applied to the bridging loan, and any remainder becomes the Residual Debt. You need to ensure the sale price of the existing property is sufficient to pay for agent/solicitor fees, to clear the bridging loan and clear/reduce existing debts if required.

Bridging loan requirements:

- If servicing for the loan at peak debt levels is established on a principal and interest basis, then the loan does not have to be defined as a bridging loan.
- Serviceability is to be completed and based on interest only payments at sensitised rates.
- Bridging loans can be structured for up to twelve months on interest only repayments.
- Both security property valuation reports are to be within Credit Procedure requirements.
- Max. LVR is 80% and LMI is not offered on this product.
- A sale agreement with a real estate agent is required where serviceability can only be proven on an interest only basis.

Residual debt after sale of existing property:

- Loan is to be set up as per the applicants request for on-going needs (i.e., principal and interest, Interest only, 25-year term, etc.)
- Standard serviceability criteria are to apply and loan servicing is to be demonstrated based on principal and interest repayments at sensitised rates.

15.5 Family pledge loan

A family pledge loan enables parents or immediate family members to assist their child/relative to purchase an owner-occupier house by offering the support of additional security to allow a higher loan amount and removing the need for LMI.

For example: Peter wants to borrow \$275,000 to purchase a \$300,000 house. The LVR in this case would be 92% and as this is over 80% LMI will be required. To assist Peter, his parents offer their house as security to allow him to borrow the amount above 80% LVR, in this case \$25,000

Special requirements:

- Borrowers are required to provide evidence that they have at least 5% genuine savings held; however, the two loans required are not to exceed 100% LVR of purchase property.
- Responsible lending requirements apply on both loans with special consideration on the guarantor/pledge loan.
- Application is to consider serviceability of the loan, the parent/family member’s on-going income over the term of the loan, other liabilities they may have and impact of a default from the primary borrower. It does not rely on sale of primary residence for clearance.
- Discussion needs to be documented in the application that the parent/family member is aware that in the event of default on the loan they are guaranteeing, they may be called upon to clear the outstanding debt, which may necessitate the sale of their own property. Independent legal advice must be obtained prior to settlement

16 Types of acceptable security

Although lending risk cannot be fully mitigated through taking security, it will help limit the loss risk in the event of default. The main types of security accepted are:

1. Real estate property.
2. Goods mortgages; and
3. Set off agreements over Hume deposit funds

16.1 Residential property

Residential property is property that is primarily used for the purpose of private housing. This includes home industry or home offices (as defined by the local government authority, for example a hairdresser or accountant operating out of their house). Residential property includes:

Residential Property Types	Specific Considerations	LVR	LVR
Standard Residential Property			(LMI)
Residential property or land value (fully serviced) within cities and townships with a population of 10,000 or more		80%	95%
Residential property or land (fully serviced) outside the above areas and in townships with a population of less than 10,000.	Proximity (up to 30 mins) to regional hub (population of 40,000) can be considered for higher up to 80% without LMI.	70%	*
Units, townhouses, apartments, and flats either single title or within a subdivided/strata titled building containing several dwellings with the unit/s held by the borrower/s (and used as security) being zoned and used for private residential purposes.	When taking a strata property as security there could be a separate title for car parking or storage allocation.	80%	95%
Non-Standard Residential			

Rural lifestyle blocks /hobby farms – Land greater than 1 hectare and less than 50 hectares in size may be regarded as a rural lifestyle block or hobby farm. A valuation is required, and these properties must meet all the following criteria: - Land with a residence or vacant land where the intent is to have a residence constructed on it - zoned rural residential, rural living or similar (not farm, rural, primary production or similar) - primary purpose is residential occupation, although may be tenanted - the land must not be used to derive income from farming (agriculture, horticulture, or aquaculture) or agistment.	Valuation will be a key to determining the LVR. Property needs to have less than 6 months sales period, amongst other similar lifestyle properties, within 30 minutes commutable distance to a regional hub and not include income producing return/or improvements. As well as being a residence the land may be used for small scale agricultural production e.g., a small orchard and/or the holding of limited stock, provided this is only for the private use and enjoyment of the owners. No farming income from the block can be used in the servicing assessment. If income is required from the property, then the application should be classified as a rural application.	80%	95%
Unimproved allotment subdivided into individual blocks that: - is up to 2.2 hectares in area; and - zoned rural residential, rural living or similar (not commercial or industrial etc.)	Additional funding may be provided to an applicant at an LVR of 80% (to be confirmed by panel valuer) to connect utilities such as water, sewerage/septic or power to their vacant land provided main road access is available.	65%	*
Multi-unit apartment blocks where there are four or more storeys and greater than 30 units in the block.	To be approached with caution where there are four or more storeys and greater than 30 units in the block. They represent a high risk and accordingly are only to be accepted up to a maximum LVR of 80%. Valuation reports are required and should include comparable sales and make specific comment on market risk. LVR exceeding 65% needs to be Mortgaged Insured and only 50% of gross rental is to be accepted for servicing.	65%	*
Luxury Properties	Refer below	70%	*
Residential properties to be avoided			
Restrictive market properties: - Strata Title Hotel, Resort style dwellings, Time-share properties - Serviced apartments or Hotel/Motel units or resort properties for on selling to the public with continued management by the Hotel/Motel chain - Other properties that have a restricted market appeal e.g., aged care complexes - Student accommodation; Boarding houses/Shared accommodation - Mobile or Temporary homes (dwellings not permanently affixed to site) - Incomplete building or properties for refinance. - studio/one-bedroom apartments less than 55 square metres - Land/improvements contaminated - Purple Title (WA) – ownership of an undivided share in a property (for example – retirement villages) - Moiety Title (SA) – ownership of part of a title. - Company Title, or company share title (Vic) – Shareholders in a company title building.		N/A	N/A
Non-residential properties:	These properties are considered as a commercial loan application.		N/A
- Property zoned farm, rural, primary production or similar, commercial, or industrial that does not meet the Bank's acceptable criteria for standard residential properties. - Properties which do not fit within the Rural lifestyle blocks /hobby farms definition. - Any property that is used primarily for business purposes.			

*To be considered by the LMI provider on case-by-case basis.

Luxury Property thresholds applicable to differing property types and geographic locations manages the concentration risk associated with higher value properties.

Are	Property Value of Land, Units, Apartments, Townhouses etc.	Property value of Houses	LVR	LVR with LMI
Sydney	\$2.0m	\$3.0m	70%	*
Melbourne	\$1.5m	\$2.5m	70%	*
Perth, Darwin, Canberra, Brisbane, Adelaide, Hobart	\$1.0m	\$1.75m	70%	*
Regional areas	\$750K	\$1.25m	70%	*

*To be considered by LMI on case-by-case basis.

17. Determining the value of security

Part of the credit assessment is assigning a value to the security being taken. Set practices for security property will be adhered to, including the following value assessments:

1. Panel Valuation Report
2. Contract of Sale
3. Automated Valuation Model (AVM)
4. Local Government rates notice

Standard residential valuations or value assessments are valid for up to 12 months for new or subsequent applications. Valuations or value assessments for other property types are only valid for up to 6 months for new or subsequent applications.

Valuation Type	Description	Comments
Valuer	Property valuation reports are to be completed by a Valuer on Hume's approved list of panel valuers, for the type of valuation for which they have been appointed.	A valuation is the preferred method of value assessment.

Contract of Sale	- An exchanged contract of sale can be used as evidence of property value where there is a signed sale of contract which is no greater than 12 months old - property is a standard residential property as described at 16.1 - acquisition is at arm's length - through a licensed real estate agent - purchaser is not an absentee investor	The contract of sale will be reviewed for non-standard inclusions which may affect the value of the property. If there are inclusion which may have an impact on the value of the property a valuation will be required
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Completion of a value assessment is based on following criteria which depends on the type of property, value of property and the LVR:

Category	Local government rates notice	AMV	Contract of sale (exclusive of GST)	Valuer
Standard residential (including Rural lifestyle/ Hobby farms)	Maximum value is \$1,000,000 and LVR on land value only to be a maximum. 70%	Required confidence greater than 6, town greater than 25,000 population, maximum LVR is 70%	Maximum purchase price of \$1,250,000 and LVR to be a maximum 80% within the Hume market (Home and Melbourne markets).	Not limited to value
Rural property	Maximum value is \$1,000,000 and LVR on land value to a maximum of 70%	n/a	Maximum purchase price of \$1,250,000 and the LVR to a maximum of 70%	Not limited to value
Commercial property	n/a	n/a	Maximum purchase price of \$1,250,000 and the LVR to a maximum of 60%	Not limited to value

Notwithstanding set criteria, a valuation report will be required from a valuer for a new purchase in the following circumstances:

- where a purchase is a non-arm's length transaction. This applies where there is a relationship between the vendor and purchaser and a non-market price may be given. In these cases, you must include in comments full details of the transaction.
- property being purchased is outside standard guidelines
- at the discretion of Hume Bank
- loan requires Lenders Mortgage Insurance
- being purchased by an absentee investor
- construction loan
- private sale with no real estate agent involved in transaction

A panel valuation report will also be required from a registered valuer for security currently mortgaged to Hume in the following circumstances:

- structural extensions are being added to property, for example extensions to property.
- concerns regarding value of property.
- At the discretion of the Credit Management team

18. Insurance

It is important that when Hume takes security and applies an extended property value that proper insurance is held over the asset.

Insurance requirements differ from loan to loan. Hume is to ensure that appropriate insurances noting Hume's interests are held prior to funding.

During the term of a loan all counterparties are required to maintain the relevant insurance policy noting Hume's interest as mortgagee.

Description	Insurance Required
Property insurance	Home building insurance on any land with established improvements thereon must be evidenced prior to settlement. The evidence must note Hume's interest as mortgagee and the amount of cover must be equal to the cost to clear the site and re-construct a like property in the event of total loss as detailed in the valuation report. If a valuation is not available the amount should not be less than the total loan amount less land value plus a reasonable allowance for site clearance.
Construction loans	Builder's Home Building Insurance with current public liability must be sighted as part of the Building Contract. Home Insurance noting Hume's interest as mortgagee must be evidenced prior to the final progress payment being made.
Owner builders	Construction (including workers compensation) and public liability insurance must be evidenced prior to construction commencing. The evidence must note Hume's interest as mortgagee. Owner builder Warranty Insurance is to be provided upon completion
Strata title	Strata Insurance must be evidenced prior to settlement.
General security agreement	Industrial special risks, fire and other risks or similar type of insurance held by the borrower and assigned to Hume.

a. Minimum amount of cover for Real Estate insurance

The buildings must be insured equal to the cost to clear the site and re-construct a like property in the event of total loss as detailed in the valuation report. If a valuation is not available the amount should not be less than the total loan amount less land value plus a reasonable allowance for site clearance.

If a formal valuation has not been undertaken, an adequate amount for insurance is to be provided to cover the improvements after

consideration of, the type, location and age of the property, the purchase price, and the loan amount.