



Professional Loan Consultants Pty Ltd

Australian Credit Licence Number: 392361, ABN: 18099522586 and COSL: 405602

Responsible Lending

Introduction

1.1. Purpose and Scope

The purpose of this document is to describe Professional Loan Consultants Pty Ltd our business approach to the consumer credit assessment process.

In addition to ensuring the highest standards of care for our clients, these procedures also assist our business in complying with:

- a. The National Consumer Credit Protection Act 2009 and associated Regulations; and
- b. ASIC Regulatory Guide RG209 (on responsible lending).

This document applies to all employees, agents and representatives of our business ("staff") and to all our products.

1.2. Our Business Culture

Our business runs predominantly on referrals. If we provide an outstanding service to our clients and ensure we take the greatest care when matching them with a credit product, they are more likely to refer other business to us.

Conversely, we can do a lot of damage to our business and our clients if we are reckless in our approach credit assessment. Consumers that are placed in loan products that they cannot afford or do not meet their needs can be irretrievably damaged in a way that can have enduring negative effect on their lives.

1.3. Annual Review

This document will be reviewed annually by the business owner. The review will ensure continuing compliance with applicable laws, the requirements of any Licence issued to our business and relevant industry standards. The review will also ensure the guidance remains applicable to our business and continues to achieve its purpose.

2. Responsible Lending Overview

The process that must be applied to the credit assessment of a consumer is in three broad steps:

1. Make reasonable enquiries about the consumer's financial situation, requirements and objectives;
2. Take reasonable steps to verify their financial situation; and
3. Make a preliminary assessment, based on the first two steps, as to whether any credit contract we might suggest is "not unsuitable".

2.1. *Not Unsuitable*

Division 4 of Chapter 3 of the Act is the source of the requirement that a credit contract is *not unsuitable* for the consumer. Although it appears to be an odd double-negative, the legislation has avoided the potentially more subjective scenario of having to ensure a loan is *suitable*.

An unsuitable credit loan is one that either:

1. does not meet the consumer's requirements or objectives; and/or
2. is not financially affordable by the consumer, either at all or without facing substantial hardship.

2.1.1. *SUBSTANTIAL HARDSHIP*

ASIC has specifically chosen not to define "substantial hardship" but has instead listed a number of factors that credit providers should take into consideration:

1. The consumer's net income after living expenses have been allowed for;
2. The degree of consistency and reliability of the consumer's income;
3. Factors that might reasonably mean the consumer's living expenses are likely to be higher than average;
4. The consumer's other debt and similar financial obligations (eg child support);
5. How much buffer there is between their real disposable income and the repayments, to allow for events like interest rate rises;
6. Whether the consumer is likely to have to sell other assets to make the repayments.

While this is not an exhaustive list, it provides a guide to what is expected of our business.

2.1.2. *WHAT ABOUT WHERE THERE ARE NO ALTERNATIVES?*

Sometimes in the course of doing business with a client, the best option for the client may be to stay where they are, even if they are currently in a credit contract which would be assessed as unsuitable.

In such difficult situations, s124(7) of the Act provides us with a legal defence for suggesting that the consumer remains in this unsuitable contract. However, in such cases, we must advise them to talk to their existing lender about their right to access hardship provisions.

2.2. *Making Reasonable Enquiries*

We are required to make *reasonable enquiries* as to the consumer's needs and their financial situation.

What level of enquiries is *reasonable* depends on the circumstances of each individual case. In deciding what is reasonable, we should consider the following factors:

- the potential negative impact on a consumer
- whether it is evident that the consumer has limited capacity to understand the credit contract

- if the product is a reverse mortgage
- if a debt consolidation service is required.

Accordingly, we have different processes in place for credit assessment depending on the products we are suggesting for the client. These are addressed at Section 3.4 of this document. However, the basic lines of enquiry are the same for all products.

2.2.1. *REQUIREMENTS AND OBJECTIVES*

The first element our brokers need to understand about a potential client is the reason for their enquiry with our business in the first place. It is during the opening stages of the interview with the client that these enquiries should be made.

What does the client perceive their need or needs to be? Is this a routine owner-occupied home mortgage? Is the customer self-employed and has difficulty evidencing their income? Are they currently in financial hardship and are looking to restructure their existing debt?

Once these needs have been thoroughly established by the broker, any suggested products or strategies need to address these needs. As noted above, in more complex transactions, the enquiries about the client's needs become increasingly important.

2.2.2. *INCOME*

All clients need to be assessed in terms of their income. In nearly all cases, this is how they will be servicing the credit contract so it is crucial to establish the following about their income:

- The source or sources of the income
- The amount of the income
- How long they have had this income
- Is the income regular or not (eg do they work casually with unreliable hours)
- How reliable is the income source (eg are they permanent in their job)

Only income that is reliable and sustainable can be included in our assessment.

In addition, the income must make sense in the context of the client interview. For example, if a 20 year old client claims to have a six-figure income, it would be reasonable to conduct deeper enquiries as to the reliability of the claimed income.

2.2.3. *ASSETS*

Although enquiring as to a consumer's asset position is not a requirement in terms of our regulatory obligations, it serves a number of purposes.

The amount and type of assets a client has, especially when compared to their other demographic details, provides us with many clues as to the client's behaviour, history, ability to save and overall credit-worthiness.

Some assets will be a requirement for certain loan types, for example most home lenders have a requirement that customers have evidence of genuine savings (as opposed to money given to them) as a condition to granting a mortgage.

Finally, an assessment of what sorts of assets a client already has can be important to give them the correct advice in terms of what sorts of credit products they should be accessing.

2.2.4. *LIABILITIES*

In order to adequately assess a consumer's ability to service a credit contract, it is vital to understand what other financial obligations they currently have.

If they have an existing loan that is going to be paid out with the finance they are seeking from our business, we need to understand as much as we can about that liability:

- What is its balance
- What are the repayments
- What is the remaining term
- What is the interest rate
- Are there any special features of the product (eg exit fees)
- What was the original purpose of the loan
- Why do they want to get out of this product

Credit cards, even with a zero balance, must be considered an ongoing liability. Most lenders have specific policies as to how much liability a credit card represents. For our initial assessment, we use a figure of 3% of the credit card limit per month.

Other liabilities may not be as transparent and so it is important to make enquiries with the customer as these liabilities are equally important in the client's overall assessment. This includes such items as child support, tax debts and social security debts.

2.2.5. *EXPENSES*

The amount of expenses to account for in a credit assessment is perhaps the most difficult component as verification is at best difficult. Often it is up to the skill, experience and judgement of the broker to determine whether or not a client is being entirely transparent about their living expenses.

For this reason, the amount of effort that should go into enquiring about a client's expenses is very much determined by the nature of the transaction.

At a minimum, any assessment of expenses must consider the client's fixed expenses arising from their ongoing liabilities (see above) and any others such as rent (where applicable) and insurance.

Variable expenses arise from a large variety of sources and discussions with the client can yield many opportunities to pare these back to make extra room in the client's budget if desirable.

However for those instances where our business requires a greater degree of enquiry into the customer's situation, these variable expenses need closer examination. In particular, the drivers of these expenses need evaluation, for example how many dependents the applicant may have.

For higher risk transactions, we require a minimum of either a full evaluation of the client's expenses or a benchmark of the appropriate Henderson Poverty Line index plus a margin of 5% Verification

We are required to take reasonable steps to verify the customer's financial situation. In practical terms, this involves requiring the client to provide substantiate what they tell our business about their income.

Again, the element or combination of the above that are used must be appropriate to the individual transaction.

In all cases, common sense must prevail and our staff must use their intuition to ensure any inconsistencies are identified. For example:

- All documentation must be original and have all the hallmarks of professional, genuine documents. Our business must be on the alert for falsified documentation like forged or altered payslips.
- Be wary of contacting an employer at the contact number supplied by the client. Always attempt to contact the employer through the White Pages, asking for the Human Resources department.
- Ensure tax returns and BAS are for current or very recent periods. If a client presents a three year old tax return, this in itself should raise suspicions.

Overall, the information and documentation being supplied by the client should fit in with the overall picture that the client is painting of themselves.

3. Assessment Procedure

3.1. Client Interview

The first interactions with the client are the most important. Using our standard collection form*, the broker must capture all the required information including, at a minimum:

- Stated requirements and objectives in enquiring for credit
- Sources and amounts of reliable income (see Section 2.2.2)
- Details of existing debts
- Details of other financial obligations (eg child support)

**Our standard collection form is an Excel worksheet, which provides us with the means to perform our preliminary assessment of the client's financial situation.*

During the interview process, brokers should be looking for inconsistencies, any missing information and any indications that the current situation, even if true and verifiable, may change at some point in the future.

3.2. Quantitative Data

All figures for income, liabilities and expenses need to be converted to a monthly amount. This is best done by using the customer-provided data, entering it into our fact find worksheet in the amount provided (eg per fortnight) and selecting the correct frequency. This will convert the amount automatically into a monthly equivalent.

By default, the fact find worksheet contains provision for collecting household expenditure data or, if none is provided, the correct Henderson Poverty Line index plus 5%. For less complex lending

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scenarios, this feature can be switched off and only fixed expenses and the Henderson index are included in the calculation.

3.3. *Verification of Income*

All income that is to be used in the preliminary assessment must be verified. The default methods of verifying income is 2 computer generated recent payslip and last financial year group certificate for employees or last 2 financial year full personal and company tax return and tax assessment for self-employed clients.

3.4. *Preliminary assessment document*

Once all the quantitative data has been entered into the fact find worksheet, the worksheet can then produce the final report that lays out the features of the transaction from a number of perspectives. The report shows the following:

1. Client's nett income available to meet loan repayments
2. Total amount that may be financed on affordability (includes 1.5% pa buffer for interest rate stress)
3. Features of suggested or selected product, matched to the client's stated requirements and objectives

We are required to make this report available to the client if they request it. However, in such cases, staff must inform the client that it is only a preliminary assessment that the product is not unsuitable for them, based on the enquiries we have made and on the information they have provided to us.

Clients must be advised that the lender can provide them with a final assessment that the credit contract, if they proceed and are approved by the lender, can be provided to them by the lender.

3.5. *Other documents*

Commencing 1 January 2011, we are required to provide customers with the following documents at certain trigger points:

- Credit Guide
- Quote for providing credit assistance
- Credit Disclosure Document

This policy document will be updated prior to 1 January 2011 to include these requirements.

Appendix A – Preliminary Credit Assessment

Dear Client,

Thank you for your recent request for credit assistance with Professional Loan Consultants Pty Ltd. In response to your request for a Preliminary Credit Assessment of how we determined that the product you selected was not unsuitable for you, we have compiled the following information.

We are required by law to ensure to do the following in determining that a credit product is not unsuitable for you:

1. Conduct enquiries regarding your financial situation and your requirements and objectives in seeking credit;
2. Take steps to verify your financial situation; and
3. Make a preliminary assessment, based on the information we gather in the first two steps, as to whether a credit product we assist you with would be unsuitable for you.

YOUR FINANCIAL SITUATION

Based on information you gave to us, we have compiled the following summary of your current financial situation:

Age

Domestic situation

Dependents

Salary/Wages

Other income

Nett of tax

Government and tax-free sources of income

Total nett income

All amounts shown have been converted to a monthly equivalent

Assets (real property, investments, vehicles)

Liabilities

Expenses

Other loans

Credit cards

Government debts

Child support

Other obligations

Living expenses

This figure is either the total of amounts you disclosed to us or an amount taken from the Henderson Poverty Index, based on your domestic situation, whichever figure is the highest. In either case the total expenses are grossed up by X%.

Nett income available to service loan

per month

Amount that may be financed

This is the amount that, if financed, would require repayments per month of your nett monthly income (as above) less one dollar, calculated over the term shown below and at the interest rate shown below plus a stress buffer of 2%

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Interest rate used
Loan term used

p.a.
Years

YOUR REQUIREMENTS AND OBJECTIVES

Based on our discussions with you, we have established the following as your requirements and objectives in seeking credit:

1. Requirement 1
2. Requirement 2
3. Requirement 3

The credit product we have assisted you in applying for is <name of product> from <name of lender> and we have matched its features to your requirements and objectives:

	Requirement 1	Requirement 2	Requirement 3
Product feature			
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Based on the above information, we have concluded that the product is not unsuitable for you and your needs. This is based on the information that you have provided us and the verification we have been able to conduct. However, your lender has access to more information that we do as your broker. You may choose to request that your lender provides you with a *Final Assessment* that the product is not unsuitable for you. You should contact your lender if you require this assessment.

Please contact us if you require further information.

Kind regards

Da Hui Wu
Director
Credit representative of PLC

