



## Residential Credit Policy Update – 27 September 2021

Please note the following policy amendments will be effective **27 September 2021**.

**\*Reminder\*** – 21.3 Risk Ratings where No more than two 'Market Risk' rating 4s (non-COVID 19 related only) can be accepted

Please remember 'Where LMI does not apply, the maximum LVR must be discounted by 10%', this is a reduction of 10% to the LVR weighting e.g. if standard LVR is 80% it is then reduced to 70%.

### **Serviceability Changes - Change to calculation of living expenses**

In line with Melbourne Institute methodology, updates have been made to the way HEM is calculated. Living expenses are now broken up into the following categories:

- Absolute basic & Discretionary basic
- Non-basic expenses (NEW)
- Excluded expenses (NEW)

Absolute basic and Discretionary Basic are expenses that include most food items, children's clothing, utilities, transport costs, confectionery, alcohol, tobacco, adult clothing and entertainment.

Non-basic expenses are considered 'luxury' expenditures. Examples are expenses related to a caravan or boat, private health insurance, housekeeping/cleaning/gardening services, expenses related to any property other than primary residence.

Excluded expenses are living expenses considered Absolute basic however due to high variability are exclude from the HEM. Examples include private school fees, life insurance, life/sickness insurance.

Only Absolute basic and Discretionary basic expenses are included in the calculation of the HEM. Non basic and excluded expenses are excluded from HEM as they are not universally used, but still need to be considered within the total living expenses.

Our Net Suplus Calculator and Systems have been updated to automatically capture and allocate these expenses accordingly.

### **Serviceability Changes – 11.4 Calculation of living expenses**

An update has been made to the living expenses used in serviceability calculations and is now to be calculated on the greater of:

- HEM\* (Absolute basic and Discretionary basic expenses) plus Savings Capacity Buffer\*\* for residential mortgage lending; OR
- The applicant(s) absolute basic and discretionary basic expenses

PLUS Non-basic expenses

PLUS Excluded expenses

\* The most up to date version of the HEM must be used in the serviceability calculation

\*\* The savings capacity buffer is calculated as one monthly contracted loan repayment on the proposed loan(s) and is to be applied to all residential mortgage lending applications.

### **Serviceability Changes – 11.5 Calculation of Serviceability / Debt to Income (DTI) ratio**

Please note the following sections have been removed:

The serviceability calculations have been updated to collect and verify the loan interest rate and remaining P&I loan term for the existing residential mortgage

loans, the use of a proxy loan term is no longer required. No calculation will be available for these facilities where the remaining term is unknown.

Interest only investment lending where serviceability was evident on an interest only basis, but not evident on a P&I basis and had an appropriate exit strategy was previously noted as an exception. This allowance has now been removed from policy.

### **Serviceability Changes – 11.6.2 Qualifying Rate of Ongoing**

Due to the introduction of new mandatory standard requirements, where an existing loan to another financial institution will remain ongoing, the following information is required:

- Loan Balance
- Remaining Term
- Current Interest Rate
- Monthly Repayment

The introduction of CCR will see much of this information captured, however where this information is not available additional supporting documentation may be required. This may include:

- Screenshot from internet banking (desktop or phone app)
- Loan Contract/Letter of Offer
- Transaction listing

Where verification of the existing loan interest rate is not available a 'new' proxy interest rate has been introduced. The proxy interest rate (currently 3.78%) is based on the most recent 6 month average of the owner occupied interest rate, plus the 2.5% buffer.

Where verification of the existing loan interest rate is available, the qualifying interest rate for existing residential mortgage loans has been updated to be the greater of:

- 2.5% above the contracted loan amount (excluding any short term discounted introductory or honeymoon rate) OR
- The 'Floor' interest rate

### **Employment and Income Changes 9.1 Employment and income matrix**

## **Income Types (Existing)**

Updates have been made to the following income types. Where noted, all 'Supplementary Income Sources' are only acceptable in conjunction with a 'Primary Income Source'.

- Managed Superannuation is now accepted as a 'Primary Income Source'.
  - Supporting Document requirements have been amended to accept 3 months transaction account statements (previously 6 months) no greater than 45 days old.
- Self-Managed Superannuation is now accepted as a 'Primary Income Source'.
  - Supporting Document requirements have been amended to accept 3 months transaction account statements (previously 6 months) no greater than 45 days old.
- Annuity:
  - Supporting Documentation requirements; evidence from annuity fund and 3 months statements showing credits no greater than 45 days old
- Managed Investment - Distributions from property trusts increased 20% haircut now applies
  - Supporting Document requirements; supporting evidence to show income over a 2 year period and confirmation of current holdings.
- Share dividends from public listed companies – individual company holding: increased 20% haircut now applies
  - Supporting Document requirements; confirmation of current holdings and supporting evidence of earning over a 2 year period.
- Child Support
  - Supporting Document requirements have been amended to accept 3 months transaction account statements (previously 6 months) no greater than 45 days old. **AND**
  - Child Support Agency assessment notice

## **Employment and Income Changes - Income Type (New!)**

- Managed Investment – Managed fund The fund must be managed within Australia and a 20% haircut to be applied.

- Supporting Document requirements; confirmation of current holdings and supporting evidence of earning over a 2 year period.

**Employment and Income Changes - Income Type (Removed)**

- The below income types have been removed from the acceptable income types:
  - Royalties
  - Interest

The updated Residential Lending Policy will be made available from the effective date.

If you have any questions please contact your Partner Relationship Manager.

Regards,

Cosi Lanzoni  
**Senior Manager Strategic Partners**



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