

MY LOCAL BROKER

My Local Broker Pty Ltd | Australian Credit License Number - 481374 | Broker Handbook

MEMBER / BROKER HANDBOOK

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Regulators

The key regulators of the credit industry are as follows:

Credit Services Providers

Australian Securities and Investments Commission - (ASIC) enforces and regulates the corporation's law and consumer protection in credit. It has jurisdiction over most businesses involved in the finance industry including mortgage and finance brokers, aggregators and mortgage managers, financial services, superannuation, insurance and deposit taking.

Credit Providers

Lenders are regulated federally by three bodies:

Australian Prudential Regulatory Authority - (APRA) is the prudential regulator of authorised deposit-taking institutions (ADIs). It oversees banks, credit unions and building societies, general and life insurers, reinsurers, friendly societies, and most members of the superannuation industry. APRA does not regulate non-bank lenders who raise capital from sources other than depositor funds.

Australian Securities and Investments Commission - (ASIC) is the main regulator of non-ADI financial institutions.

Australian Competition and Consumer Commission - (ACCC) regulates competition and consumer protection issues for most businesses. For mortgage and finance brokers and providers of financial services, some of these responsibilities have been transferred to ASIC.

Laws and Codes of Practice

The laws and codes of practice which govern credit services intermediaries and lenders are described below.

The majority of the requirements of these laws and codes are incorporated into this Handbook. Further guidance is in MLB policy documents.

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The National Credit Code (“Credit Code”) governs consumer lending in Australia.

Designed to protect consumers, the Credit Code applies only to credit provided wholly or predominantly for personal, domestic or household purposes where the consumer is an individual or a strata corporation. It applies to credit for residential investment properties but does not apply to credit for business purposes.

The Credit Code is based on the principles of truth in lending which allows borrowers to make informed choices when purchasing credit. It also sets out rules by which credit providers must abide throughout the life of a loan.

National Consumer Credit Protection Act 2009

In addition to the Credit Code, the National Consumer Credit Act 2009 regulates lenders, mortgage brokers and intermediaries who assist consumers to obtain finance and credit services intermediaries such as aggregators and mortgage managers.

Other Legislation

A variety of other legislation applies to the conduct and marketing activities of credit services intermediaries. These include:

- Competition and Consumer Act 2010
- ASIC Act 2001
- State Fair Trading Acts
- Privacy Act 2001
- Door to Door Trading Acts (State and Territory)
- E-Marketing Code of Conduct (National)
- Spam Act 2003
- Do Not Call Register Act 2006

MLB Broker Agreement Obligations

MLB expect that all members will always be compliant with all aspects of the legislative and regulatory framework. These expectations are outlined in the member agreement with MLB. Any broker that is an authorised representative of an agreement holder is also held to account by the standards outlined in the member agreement.

The penalties for not conforming to the expectations are highlighted in the member agreement. However, any non-compliance with written expectations may also result in a material breach of the member agreements (of which member authorised representatives are held vicariously liable through the member agreement).

Monitoring Supervision and Training

Each broker (regardless of licence or authorisation status) must participate in file audits on a periodic

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basis. A minimum of 5 files (if 5 identified at the time) will generally be reviewed bi-annually (dependent on volume and previous audit results). New brokers will be audited from 3 months after being onboarded under MLB. These audits will assess loan files against a comprehensive audit checklist and will provide the broker with useful feedback on improvements that can be made to their documentation requirements. Reports will be provided for each audit, ensuring brokers can rectify any corrective actions and refer to these materials in delivering best practice documentation standard.

A consistent failure to meet the file audit competency will be regarded as a failure to meet MLB compliance expectations and may result in warnings, remedial actions, suspension or termination in accordance with the member agreement.

Training and education

In addition to the minimum requirements for brokers to hold at least a Certificate IV in Finance and Mortgage Broking and undertake at least 20 hours of CPD per year (this may differ based on industry body membership requirements). Credit representatives of MLB and ACL holders and their representatives are required to complete an induction program when onboarded within 60 days. The induction program consists of:

- Completion of an online training plan via MLBLEARN
- Attending a virtual webinar

MLB expect all members to participate in the MLB hosted Professional Development Days and other online or face to face learning opportunities promoted by MLB.

MLB Professional Development Days deliver quality outcomes that educate and innovate. MLB will continue to deliver sessions of exceptional quality and frequency that are specifically tailored to meet the current needs in the mortgage broking industry. These sessions will be delivered with an increased focus on professionalism and feedback from our members.

Non-Compliance with Broker Handbook

It is important to note that this Broker Handbook is an integral part of your engagement as an MLB member. As such, all clauses, processes, guidelines and requirements covered in this Handbook are binding on you.

Equally, a breach of any clause, process, guideline or requirement covered in this Handbook is considered a breach of the overall agreement, and standards put in place to assist all MLB members with the effective and efficient running of their business.

MLB Actions for Non-Compliance

When we become aware of a breach, or potential breach, of this Handbook or any part of the agreement, Code of Conduct or related policy we will assess the situation, and it may be referred to the MLB compliance committee.

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Breaches of this policy may result in:

- Issuance of a warning/breach notice or notice of default;
- Issuance of a suspension notice;
- issuance of a termination notice;
- the deduction or withholding of commission;
- being placed on a compliance plan for a period of time; or
- other action MLB's compliance committee sees fit.

The intention of this process is to highlight specific activity that is not in accordance with this policy, and that need to be brought to your attention, in order that the non-compliance can be managed in a timely manner and remedial action put in place.

Civil action

MLB may also take civil action in relation to a breach of this Handbook (or related code/policy) by an MLB broker member and may refer any suspected or actual unlawful activity of an MLB member to law enforcement agencies.

Codes of Practice

MFAA Code of Practice

The MFAA Code of Practice is binding on every mortgage broker/originator, finance broker, mortgage manager and credit provider who is a full or life member of the MFAA and who acts for a party to a transaction that involves or may involve the provision of credit.

It requires members to commit to good industry practice and fair dealing in the finance marketplace. Its objectives are to:

- establish professional standards of consumer/member dealings in the mortgage and finance industry;
- promote commitment by MFAA members to compliance with laws and regulations in the spirit of those laws and regulations;
- promote the maintenance of the high public standing of MFAA membership accreditation;
- promote ethical and fair business practices to the benefit of consumers and the public and members; and
- promote education and professional programs for members.

FBAA Code of Practice

The FBAA code was developed with the objective of decreasing the cost of professional indemnity insurance for finance brokers by setting standards of behavior, accountability and record keeping applicable to members of the FBAA to increase confidence in the services provided by members of the FBAA.

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The FBAA Code of Practice applies to all accredited members of the Finance Brokers Association of Australia Ltd.

Under the FBAA Code of Practice, a finance broker has responsibilities to clients and to lenders. The objective of the code is to promote:

- standards of good conduct and service;
- informed and effective relationships between finance brokers and clients and credit providers (lenders);
- efficiency in transactions which involve finance brokers;
- provide for consultation with Consumer Representatives in dispute resolution and reviews of the code; and
- effective dispute resolution.

Banking Code of Practice (BCoP)

On 1st July 2019, the Australian Banking Association (ABA) released a new Banking Code of Practice (BCoP). The Code sets out the standards of practice and service in the Australian banking industry for individuals and small business clients and their guarantors. The guiding principles that underpin the Code are:

- Trust and confidence
- Integrity
- Service
- Transparency and accountability

The Code covers a range of obligations related to:

- Account suitability
- Terms and conditions
- Direct debits and chargebacks
- Privacy and confidentiality
- Joint debtors
- Guarantees
- Provision of credit
- Financial difficulty and debt collection
- Dispute resolution

Whilst the BCoP is only binding on banks who subscribe to the Code, lenders may require mortgage brokers take certain steps and make declarations, particularly in relation to vulnerable clients and guarantees.

The BCoP requires to take extra care with clients who may be experiencing one or a combination of any the below situations:

- age-related impairment

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- cognitive impairment
- elder abuse
- family or domestic violence
- financial abuse
- mental illness
- serious illness

Under the Code, if a co-borrower will not receive a substantial benefit from a loan (such as each borrower owning equal share of a property), lenders must be satisfied that the co-borrower is not experiencing financial abuse.

BCoP protects individuals who give a guarantee to secure loans to other individuals or small businesses. It outlines the information lenders must give prospective guarantors prior to accepting a guarantee. Brokers are also required to assess the suitability of guarantors and take steps to ensure guarantors understand what it means to guarantee a loan prior to submission.

MLB Compliance Documentation

Credit Guide and Privacy

MLB Credit Guide and Privacy Disclosure Consent document must be signed and dated. Whilst the Credit Guide must be provided before you provide credit assistance, the Credit Guide is combined with the Privacy Consent. The Privacy Consent must be provided prior to the collection of personal information to meet the requirements of the Privacy Act (1988).

Credit Guide must include the following:

- Details of the Licensee including name, ACL number and contact information
- Details of internal and external dispute resolution (IDR and EDR) schemes
- Commissions, fees and charges that may be payable
- Top six lenders used by ACL holder
- Whether commissions to third-party referrers will be paid
- Statement on any volume bonus arrangements in place
- If the Credit Guide is provided by a credit representative on behalf of the ACL holder, it must also include the following:
 - Details of the credit representative including name, CRN and contacts details
 - Fees and charges payable directly from the client to the credit representative
 - Information about the credit representative's IDR scheme

A Privacy Consent is included with the Credit Guide, and this must be acknowledged by the clients for the purposes of data retention, data storage and management of the client's personal information.

Credit Quote

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Only required where the broker has elected to charge the client(s) a fee. The Credit Quote must be signed and dated before you provide credit assistance.

The fee(s) can only be for credit services provided.

Common types of fees brokers charge:

- Credit assistance fee – Fee charged to the client once credit assistance is provided, with the fee retained by the broker regardless of whether the client proceeds
- Credit assistance fee for client not proceeding – Fee charged to the client if they do not proceed with the broker's recommendation or request a loan application submitted to a lender be withdrawn
- Complex applications – Fee charged to the client due to complex financial situation that requires a significant amount of time and/or effort
- Commercial lending - Applications for commercial or business lending which is non-regulated. A Credit Quote is not required in relation to assistance provided for non-regulated loans

When charging a fee, you should consider:

- The amount you will be remunerated by the lender
- Why you are charging the fee
- Whether charging a fee could place the client in financial hardship
- The ability to evidence how you are still acting in the client's best interest

Fees that have a delayed inception are not appropriate as they resemble clawback fees. Essentially, any fee that has some resemblance to a clawback is banned (covered under the anti-avoidance provision).

When fees are being charged, they must be fair and reasonable, appropriate for the services provided, and correctly disclosed (and accepted) at the appropriate time.

Credit representatives authorised by MLB must:

- not charge more than 1% (excluding GST) of the total loan amount for loans >\$500,000
- not charge more than \$5000 (excluding GST) for loans <\$500,000

Exceptions MUST first be approved by the MLB Compliance Team.

ACL Holders are encouraged to apply the same parameters.

Provision of a Credit Quote

The National Consumer Credit Protection Act requires a Credit Quote to be provided to, and accepted by the client, before credit assistance.

You cannot charge a fee if you have not provided a Credit Quote, and it has not been accepted (signed) by the client(s).

The Quote must:

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- be in writing;
- be signed by the client(s) before you provide credit assistance;
- set out the maximum amount the client will be required to pay;
- cover information about the credit assistance and services the Credit Quote covers.

The client must be provided with an accepted/signed copy of the Credit Quote.

For each fee payable to you by the client, the Credit Quote must include:

- an explanation of the type of fee;
- if the fee is not a fixed amount, the method for working it out;
- the maximum amount expressed in dollars;
- when the fee is to be paid;
- the circumstances when the fee will not be payable (if applicable).

Brokers must not lodge or threaten to lodge a caveat in relation to land or property to induce a client to pay an amount for providing credit assistance or other services.

Fees cannot be charged (invoiced) prior to credit assistance being provided.

Note: The Credit Guide must contain details on fees payable (or not) and should make reference to the Credit Quote.

Preliminary Assessment and Credit Proposal

The MLB Preliminary Assessment and Credit Proposal document must be completed, signed and dated. Document date must precede lodgment with the lender by no greater than ninety (90) days.

The Preliminary Assessment must demonstrate that reasonable investigation and verification has occurred in making the assessment that the proposed loan is “not unsuitable” for the client(s). Not unsuitable means the client’s can afford the loan repayments without significant financial hardship and that the loan meets their requirements and objectives.

Commission disclosure and any other applicable remuneration must be disclosed in the Credit Proposal and must be expressed as a maximum dollar value. Fees and commissions payable to the lender, the broker and other parties must be disclosed as well as the circumstances in which they are payable.

Manual Fact Find or Electronic Fact Find

If a manual fact find document has been completed, this must be held on the client(s) file. Electronic fact find will automatically populate with the Preliminary Assessment and Credit Proposal document when using Chief.

Other Disclosures

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Within the disclosure documentation, you must also make declarations and provide assurances with regards to management of Conflicts of Interests and how you have addressed insurances (confirmation that a conversation around insurances has taken place and that the client is comfortable with their current level of cover, or that they will take steps to investigate appropriate options).

Material Changes Before Settlement

A Preliminary Assessment/Credit Proposal (with the lender, product, amount, interest rate, repayment and fees listed), needs to be given to the client when you provide credit assistance and prior to lodging the application.

However, there are circumstances where you will need to issue a new Preliminary Assessment/Credit Proposal. Circumstances requiring a new disclosure includes:

- a change of chosen product
- a change of lender
- a material change to the loan amount
- an increase in the loan amount
- a decrease in the loan amount that impacts policy
- you have to extend an approval after 90 days have passed

These changes will need to be updated in Chief so that new disclosure documents are generated directly within the software. This ensures a time stamp is recorded against the Preliminary Assessment/Credit Proposal and can be issued with the capacity for digital signatures.

Material Changes After Settlement

You don't have to issue new NCCP documents once the loan has settled. In addition, you do not have to notify the lender about any changes with the client's financial position that were not known to you at the time of settlement.

However, you should periodically review your client's loan facility to ensure they are in the most appropriate loan relative to their changing circumstances.

Product Switches

New disclosure documents will need to be issued and a full assessment to be conducted in situations where the switch involves a new contract being issued. The legislation requires that all responsible lending requirements must be met when engaging in a credit activity and any loan that involves a new contract (even though it is with the same lender) will constitute a credit activity.

Note: Confirm with your lender BDM to see if a switch form will trigger a new loan contract being issued.

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Remaining in a Contract – Credit Assistance Provided

In a situation where you have assessed a client's financial position for the purpose of refinancing or restructuring a loan but are not able to assist the client (the assessment is either not in the clients' best interests or the loan would not meet their requirements) you must still record your assessment and provide the Preliminary Assessment to the client upon request.

This also applies in situations where affordability prevents the clients from moving to another lender. If you become aware that the clients are in financial difficulty, they are to be referred to the lender as they may be able to vary the terms of their contract or be assessed under hardship provisions.

Rate Reviews – No Credit Assistance Provided

In a situation where you conduct a rate review simply for pricing purposes, this does not constitute credit assistance. As long as there is no recommendation made with regards to remaining in the current credit contract, and no assistance has been provided in increasing the limit on the loan, no credit assistance has been provided. If credit assistance is not provided, this is then exempted from the Best Interest Duty obligations and exempted from the Responsible Lending obligations.

Rate Reviews – Credit Assistance Provided

In a situation where a client has asked you to review their current circumstances (their requirements and objectives and their full financial position) and compare their current loan against the market, you would need to conduct an assessment based on any rate review you can obtain from the existing lender and compare it against options available in the market. If you conclude that the existing product (with the rate review applied) is the most appropriate option and there is no benefit to refinancing, any suggestion or recommendation to remain in the current contract constitutes credit assistance. This means both Best Interests' Duty and Responsible Lending obligations apply, and the assessment requires you to generate a Preliminary Assessment.

Identification and Interviews

Identification

AUSTRAC and ARNECC policies and procedures maintain that brokers should meet with clients face to face to conduct identification checks, although there are variations in their guidance materials on what will be acceptable as a face-to-face interaction. Individuals must be properly identified to meet AML/CTF requirements and the VOI requirements that are set by the lenders. This expectation is subject to the model participation rules from ARNECC and from lender expectations under KYC, which may change from time to time in accordance with social conditions.

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The lender is regarded as the reporting entity under the AML/CTF Act and brokers are the agents of the lender for the purpose of identity verification and for assessing the client's financial behavior. The broker must also meet the VOI requirements of the lender for the purposes of meeting the Model Participation Rules recommended through ARNECC. In all cases, you will be required to meet the lenders specific guidelines to identify the applicants and guarantors (if any).

Where the lender undertakes its own identification process, you must still identify each individual by sighting an original photo identification document, such as a Driver's Licence or Passport. You must keep a clear copy of the photo identification document on the client file in Chief.

If the applicant fails to produce original photo-identification, you must determine whether it is available (but simply not in their possession at that particular time) and, if so, a further appointment must be made to complete identification. If you are satisfied that the applicant does not possess any photo identification whatsoever, you must ask the applicant to produce a form of identification that has a signature on it (such as a debit or credit card), obtain a specimen signature from them during the interview and compare that signature with the signature on the card.

If a company is involved, all office bearers and beneficial owners must be identified in this way. If a document is in a language other than English, you must also provide a translation by a translator accredited by the National Accreditation Authority for Translators and Interpreters Ltd (NAATI).

You must update your client identification records each time that you provide a new service to them, such as a new or top up loan. However, if the last service you provided was within the previous 6 months, the ID document on file has not expired (expired beyond 2 years for Passports) and the person has confirmed they have not changed their name during that time, you may not be required to update your client identification records.

Note: Lenders may require the client be reidentified each time you provide a service, regardless of timing.

ID Documentation and Verification

IDyou or other MLB approved VOI platforms

MLB's preference is for you to identify your clients using a digital app such as IDyou. Other forms of identification such as GreenID, MaxID or another VOI platforms may be acceptable as options if they allow you, as the broker, to control the interaction.

MLB expect you to have a correctly completed report from one of the above VOI platforms for each applicant and guarantor. Whichever platform you use, it is your responsibility to make sure your chosen lender(s) will accept a report from that platform. You must keep a record of your ID verification evidence in Chief.

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MLB acknowledge that some lenders will not accept IDyou or alternative ID apps for the purposes of verification. Therefore, you will need to accommodate the lenders requirements as well as MLB's.

Note that IDyou is recommended by lenders as a physical face to face option. The IDyou 'remote' function should only be utilised as an acceptable solution where it is unreasonable to visit the client face to face physically. MLB acknowledges that in certain circumstances, there may be restrictions in conducting physical face to face VOI. Virtual face to face is acceptable in these situations. However, the IDyou 'remote' or 'virtual' function is not to be regarded as the primary solution to appropriate ID verification.

Certified copies of ID

Certified copies of ID are acceptable where a physical face to face ID process is not appropriate at the time of interview.

The certification process must be carried out by an acceptable referee and can differ from state to state (see Services Australia – Certified Documents/Acceptable Referees). Generally, most lenders will accept certifiers from this list.

Video conferencing for ID

MLB maintain the expectation that, subject to jurisdictional protocols or unreasonable access due to geographical barriers, all clients should be seen in a face-to-face environment. MLB have not adopted a policy where video conferencing replaces the physical face to face ID. However, on a case-by-case basis, there may be exceptions due to physical, social and environmental issues.

Refer to scenarios over page for details of ID processes including the use of Video Conferencing via Chief to identify your client.

Identification Scenarios

Social or geographical restrictions

Acceptability of VOI apps being used remotely/virtually (non-face to face) is appropriate when there are social and geographic issues such as:

- In situations where either the client or the broker is in a lockdown situation/isolation, a remote/virtual digital ID platform such as IDyou may be utilised to verify ID.
- In a situation where the client resides in another State, a remote/virtual digital ID platform may be utilised to verify ID.

Acceptability of video conferencing when there are social and geographical issues, and the use of a VOI app is not available:

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When using this option, you should make commentary on when your video conference was held, and the rationale on why you were unable to complete a face-to-face meeting with the clients (e.g. through a Government initiated lockdown).

Prior to video conferencing, you will need to be provided with clear colour copies of the client's identification to meet the 100 points required. During the video conference interview, clients must display their ID documents so that you can verify your copies against the Identification that is visible through the video conferencing.

Photographs of the ID during the conference call should also be taken (using the Chief feature or another appropriately encrypted video conferencing service) as evidence of this verification.

In a situation where there is no video evidence that displays the brokers face, a declaration would need to be provided that the ID took place via video conferencing and that you witnessed the ID. In that declaration you will need to confirm that:

'The copies were a true and accurate reflection of the original images' witnessed during the video conference'.

Note: You would also need to have lender permission regarding the acceptance of video conferencing as an alternative acceptable source for ID purposes.

Use of Certified ID

In the unlikely event that there is no internet service available for your clients at the time of verification, you will need Certified ID to be provided.

You must confirm with the lender if this is an acceptable process.

Australia Post Services

Australia Post identity checks may be used when clients are isolated or otherwise unable to meet face to face or remotely/virtually using previously mentioned methods.

In preparation, ensure your client has the correct combination of identity documents for the highest possible category with Australia Post. Clients must show two original and current category 1 documents (except for an expired Australian passport which has not been cancelled and was current in the preceding two years).

If a client cannot satisfy category 1 requirements, they must produce documents from the next highest category possible.

Have your client present the completed Verification of Identity Form (and where applicable, your Client Authorisation Form) and the correct identity documents at a participating Post Office.

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Summary when managing exceptions

1. Ensure best practice standards are being met, and you are able to justify your reasons for not meeting clients face to face (physically);
2. Confirm your non face to face process meets lender policy.

Acceptable Identification Documents

Primary photographic - Drivers Licence or Passport

This is the gold standard in identification as they involve photographic ID which is easily confirmed. There are numerous security features built into the ID that can be checked by the broker.

Primary non-photographic - Birth Certificate/Citizenship Certificate

In some situations, these secondary sources may need be used if there is no primary photographic ID. Note that if the client is refusing to be contacted in person (physically or virtually) the use of non-photographic ID should be queried.

Secondary - Medicare card

To be captured for each applicant and guarantor, whether evidenced in person, via an approved digital ID app or through a certified copy. This is an MLB recommendation for the purpose of verifying dependents.

AML/CTF Obligations and Risk Assessments

As part of your industry body membership, you must undertake AML/CTF training. This training obligation is ongoing, and refresher training is required every 2 years.

You must strictly follow the lender's AML/CTF procedures and policy as you are acting as an agent of the lender in accordance with AUSTRAC guidance. When conducting AML/CTF reviews, a mortgage broker must adhere to the KYC guidelines to ensure that:

- Appropriate identification procedures are followed to establish that the client is who they claim to be, and you are satisfied in that verification process.
- You have conducted reasonable enquiries and verification of the client's financial position to assess their financial behavior and AML/CTF risk profile.

Brokers can assess the AML/CTF risks according to 2 key factors:

1. Assessing the Jurisdiction Risk

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2. Assessing the Product Risk

Jurisdiction (location) risk

Some geographical locations have different levels of money laundering and terrorism financing risk. For example, countries with significant levels of corruption, low levels of regulation, sanctions or embargoes or have been associated with drug trafficking are considered as Higher Risk jurisdictions.

The MFAA AML Standard classifies Australia and New Zealand as low or Standard Risk and all other countries as Higher Risk. This standard has been developed by the MFAA in collaboration with lenders. The procedures in the Handbook embody this standard.

Use the following table to assess jurisdiction risk.

Criteria	Standard Risk	Higher Risk
Location of the client	Client is in Australia or NZ	Client lives outside Australia or NZ
Location of security	Security is in Australia or NZ	Security is outside Australia or NZ
Location of the asset to be financed	Asset is in Australia or NZ	Asset is in a country other than Australia or NZ
Location of funds to repay the loan	Loan will be repaid from an Australian or NZ source	Loan will be repaid from an offshore source

Product risk

Some products, because of certain features and benefits, may make it easier and therefore more attractive for money launderers. The table below shows the level or risk associated with common lending products according to the MFAA AML Standard.

Level of Risk	Product	
Standard Risk	Standard variable residential mortgage	Equity release mortgage
	Standard fixed residential mortgage	Standard capped/floored/belted residential mortgage
	Equity finance/shared appreciation mortgage	Residential mortgage with tied credit card facility
	Novated lease (vehicle)	Bank guarantee
	Business loan	Construction loan
	Offset residential mortgage	Chattel mortgage

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	Hire purchase	Novated lease (property)
	Partnership commercial loan	Reverse novation
	Commercial overdraft/line of credit	Lo-doc Residential Mortgage*
Higher Risk	Letter of credit/residential line of credit	Pre-shipment finance

The following characteristics may indicate that a client is Higher Risk. These should be considered when assessing risk.

Characteristic	Reason
Loan repayments from third parties	Facilitates layering
Increased anonymity for client	Facilitates multiple laundering events
Value churn through product	Allows rapid movement of funds
Early repayment with no/minimal penalties	Facilitates complex asset trails
Rapid access to funds at clients' request	Cross border asset flows (as inherent part of product)

Politically Exposed Persons (PEP)

A PEP is an individual who holds a prominent public position or role in a Government body or international organisation, either in Australia or overseas. Immediate family members and/or close associates of these individuals are also considered PEPs.

Because PEPs hold positions of power and influence, they can be a target for corruption and bribery attempts, and ultimately for money laundering or terrorism financing activities.

This is why it's important to use AML/CTF measures to identify and manage any such potential risks.

A politically exposed person means an individual:

- (1) who holds a prominent public position or function in a Government body or an international organisation, including:
 - a) Head of state or head of a country or Government; or
 - b) Government minister or equivalent senior politician; or
 - c) Senior Government official; or
 - d) Judge of the High Court of Australia, the Federal Court of Australia or a Supreme Court of a State or Territory, or a Judge of a court of equivalent seniority in a foreign country or international organisation; or
 - e) Governor of a central bank or any other position that has comparable influence on/with the Governor of the Reserve Bank of Australia; or
 - f) Senior foreign representative, ambassador, or high commissioner; or
 - g) High-ranking member of the armed forces; or board chair, chief executive, or chief

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financial officer of, or any other position that has comparable influence in, any State enterprise or international organisation; and

- (2) who is an immediate family member of a person referred to in paragraph (1), including a:
 - a) spouse; or
 - b) de facto partner; or
 - c) child and a child's spouse or de facto partner; or
 - d) parent; and
- (2) who is a close associate of a person referred to in paragraph (1), which means any individual who is known (having regard to information that is public or readily available) to have:
 - a) joint beneficial ownership of a legal entity or legal arrangement with a person referred to in paragraph (1); or
 - b) sole beneficial ownership of a legal entity or legal arrangement that is known to exist for the benefit of a person described in paragraph.

Dealing with PEP

In the first instance, the lender may have their own policy on how to conduct the appropriate checks on a PEP. In the absence of an appropriate lender policy, brokers should conduct their own checks.

Using Chief (or using some lender platforms in Apply Online), you will be able to conduct the appropriate checks against the relevant databases for client's that you might suspect sit under the PEP category. This function is called Digital KYC, and it is a third-party integration that should be accessed for any applicants that fall into the PEP category.

Suspicious Matter Reporting

If you have reasonable grounds to suspect that a client or their activity may be related to money laundering or terrorism financing or if you suspect that the person, or agent of the person, is not who he or she claims to be, consider making a Suspicious Matter Report to the lender.

The lender is responsible for verifying identification information and investigating any Suspicious Matter before forwarding any reports to AUSTRAC.

What information should be collected when reporting a Suspicious Matter?

- Information on the client;
- Full name of the client;
- Client's business and/or residential address;
- Client's occupation, business or principal activity;
- Client's date of birth;
- Client's country of citizenship;

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- Sources relied on to verify the client's identity, including type of document and its unique number and who produced it; and
- Full details of any other name used by the client.

Trigger for suspicion

Details of the matter that has triggered the suspicion should be documented and should include:

- Any information that appears to be false or misleading, as well as an explanation of why you believe it is apparently false or misleading;
- Type of services or transactions which are the subject of the suspicious matter;
- Date(s) of the service(s) or transaction(s);
- Whether the client was the recipient or beneficiary of the transaction, or the person who initiated the transaction;
- Total amount of the transaction(s).

If the transaction(s) is in a foreign currency, both the foreign currency amount and the amount converted to Australian dollars must be reported.

The amount of each component of the transaction must be reported, if relevant. For example, if the transaction is comprised of part cash and part cheque, then the amount of the cash and the cheque components must each be reported.

Details of any beneficiary to the transaction(s) must be reported – including, where possible, the beneficiary's full name and address and, where available or relevant, the beneficiary's bank account details and the country to which the funds are being sent.

Details of the person who initiated the transaction must be reported - including the person's full name and address and, where available or relevant, the person's account details and the country to or from which any funds are being sent.

If another institution or intermediary was involved in the transaction:

- the full name of the other institution or intermediary;
- the branch name or branch location of the other institution or intermediary; and
- the country of the branch of the institution or intermediary involved in the transaction – if the country is not Australia.

If it appears that any other transaction may be related to the transaction in relation to which the suspicion has arisen, provide as many details as possible in respect of each of the related transaction(s); and any other detail that you consider may be relevant.

Tipping off

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After submitting a Suspicious Matter Report, do not give any information that could indicate that you suspect money laundering or counter terrorism financing to anyone other than the lender and AUSTRAC. Talking to the borrower/client, other brokers, the MFAA or others about your suspicions is a breach of the law.

Similarly, if the lender verifies the client's identification and rejects the application and you suspect that the lender has reported a Suspicious Matter to AUSTRAC, do not tell the client. Instead, refer the client to the lender.

Fraud

Many other types of fraud are commonly associated with mortgage transactions, including misrepresentation of financial, employment or identity information, false valuation or intentional default.

Any of the participants can be involved in fraud, from the borrower to the originator, broker, valuer, accountant, legal adviser or lender. Fraud can have a significant impact on a broking business. There can be damage to personal and brand reputation, which can limit opportunities for new business and damage existing business relationships. It can also result in termination of a broker's accreditations (aggregator and lenders) the loss of upfront and trailing commissions as well as significant legal costs when a broker is caught up in civil or criminal action.

Lenders' Mortgage Insurance does not cover losses suffered as a result of a fraud by the lender or anyone acting on behalf of the lender in the origination chain. Lenders are therefore likely to seek to recover the losses from anyone who has been involved in the fraud.

Client identification and verification will assist mortgage brokers to detect fraud, although there are other "red flags" that should alert you. A lender often relies on a mortgage brokers verification of information, assessment and investigation as they do not have direct contact with the client or the opportunity to see original documents.

Mortgage brokers must abide by the particular identification verification requirements depending on the State in which they operate (or a secured property is situated).

Face-to-face Interviews

MLB recommends you conduct all client interviews face-to-face (physically) when possible. Face to face interviews enable brokers to be more confident in:

- Verification of the client's identity
- Receiving supporting documentation
- Assessing their personal circumstances and relationship/family status

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- Establishing rapport with the clients and their situation

This also supports the processes from numerous lenders that require you to sign a declaration that indicates you have sighted the originals of certain supporting documents.

A physical face to face interview is the best method to gather or clarify personal and financial information from the client. However, MLB understand that interviews via video technology may be an appropriate option when it is not possible to physically visit the client.

During the interview, you must establish whether the applicant can speak and comprehend English sufficiently to understand the nature of the transaction. If this is not the case, MLB must be informed. If you cannot converse fluently in the language the applicant is most comfortable with, you must use an interpreter to assist with the interview and confirm to MLB that this has occurred.

Vulnerable clients

During the interview, you should also attempt to gauge whether there is as a situation where applicants and/or guarantors may be considered vulnerable. The industry bodies (MFAA/FBAA) will ensure brokers have participated in the vulnerable customer's module that was jointly developed with the Banking Code of Practice. It is imperative that brokers have completed this training to be more aware of what may constitute financial abuse and the potential for possible financial abuse.

Non-face-to-face Interviews

If you are unable to conduct a face-to-face interview you must:

1. Check the lenders requirements or contact the lender BDM to obtain approval if not within policy. **Do not** sign any declaration on the lender's application indicating you have conducted a face-to-face interview if you did not meet them face to face (either a physically or virtually).
2. Retain the lenders approval email (or a similar notation based on the lender representative that you have corresponded with) and place this into the file notes within Chief.

Proceeding with the non-face-to-face interview

Ensure all supporting documents, together with ID documents, are certified by an acceptable certifier (you must meet the individual lender's requirements about who may certify original documents).

Non-English documentation

If a document is in a language other than English, you must provide a translation by a translator accredited by the National Accreditation Authority for Translators and Interpreters Ltd (NAATI).

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Best Interests Duty

All mortgage brokers that engage in credit activities as defined by the NCCP Act will need to act in the best interests of their clients.

ASIC has stated that it will be guided by the following outcomes in the administration of these obligations:

- Aligning mortgage broker practices with client expectations;
- Improving the support, guidance and communication provided to clients throughout the credit assistance process;
- A higher quality of credit assistance being provided overall;
- The reasons for the options recommended to clients by mortgage brokers, and why the product is in the client's best interests that are to be recorded and explained to the client;
- Credit assistance which is in the interest of the broker or a third party, may only be provided if it is also in the client's best interests; and
- The Best Interests Duty and the Conflict Priority Rule are separate obligations that operate alongside each other and apply each time a mortgage broker provides credit assistance.

Who is Covered Under Best Interests Duty?

The Best Interests Duty obligations will apply to a 'mortgage broker', a term which is now defined in the National Consumer Credit Protection Act 2009 as:

- A credit licensee or credit representative who carries on a business of providing credit assistance in relation to credit contracts offered by more than one credit provider that are secured by mortgages over residential property; and
- Does not perform the obligations or exercise the rights of a credit provider in relation to the majority of those credit contracts.

When does Best Interests Duty Apply?

Best Interests Duty applies when you engage in credit assistance. Credit assistance is defined as:

- Suggesting that the client apply for a particular credit contract with a particular lender;
- Suggesting that the client apply for an increase to the credit limit of a particular credit contract with a particular lender;
- Suggesting that the client remain in a particular credit contract with a particular lender;
- Assisting the client to apply for a particular credit contract with a particular lender; and
- Assisting the client to apply for an increase to the credit limit of a particular credit contract with a particular lender.

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Conflict Priority Rule

Identify any possible conflicts

To comply with the conflict priority rule, BEFORE YOU ENGAGE IN CREDIT ASSISTANCE, you must first identify what interests you or your related parties have. If you know, or reasonably ought to know, that there is a conflict between the interests of the client and the interests of you, the licensee, associate, a representative of the licensee, the clients' interests must be prioritised when giving the credit assistance.

Resolving conflicts in the interest of the client

The conflict priority rule is an additional requirement in the best interest's obligation, which requires mortgage brokers to resolve conflicts of interests in the client's favour.

The conflict priority rule means that you must not recommend a product or service of a related party that would create extra revenue for yourself, your credit licensee or another related party, unless doing so would also be in the client's best interests.

STOP: if there's a conflict of interest, and the broker is unable to prioritise the client's interests over their own, then the broker must not provide the credit assistance.

When assessing whether a conflict exists, you should consider what a mortgage broker in your position, but without a conflict of interest, would do.

Examples of Conflict

Ownership structures

You must inform clients where ownership structures or other commercial ties have potential to affect the credit assistance provided, however compliance is not merely met by disclosure of the conflict or having the client consent to the conflict.

Role conflicts

You must not act to further your interests in situations where you may have multiple roles on the same or related transactions (e.g. you are a broker and also operate as a real estate agent/financial planner/accountant, etc.) in situations where you may earn two or more income streams, dependent on the transaction.

Tiered servicing

Tiered servicing models and situations where preferential treatment is provided to a broker by a lender may result in a favorable bias toward that lender. If that bias results in the selection of that lender's product appearing in a comparison table or as the product selected, the broker must be able

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to categorically demonstrate that the selection of that lender's product was selected in the client's best interest.

Refinancing and clawbacks

In a situation where a client has approached you to investigate refinancing options within 2 years of the original loan settlement date, you must, in your analysis and subsequent comparisons, act in the client's best interests. Encouraging a client to stay in a loan that is not in their best interests is a breach of MLB's policy and a breach of the regulations. The potential activation of a clawback is not to be considered in the assessment of product or lender options. MLB encourages brokers to conduct periodic reviews of a client's loan facility and expects that clients will receive credit assistance that demonstrates you will be acting in their best interests.

Offset gaming

Net of offset refers to how upfront commissions are calculated for brokers when their client uses an offset account. Essentially, the commission paid by the lender to the broker is reduced by the amount of the loan that is offset by the client's funds in an associated account. The timing of calculation of commission based on the loan amount less funds held in an offset account vary from lender to lender.

Whilst the movement in the balance of linked offset accounts is facilitated by the client after settlement based on their particular circumstances, it is a breach of the lenders Broker Code of Conduct (and a conflict) for brokers to influence or coerce their client to move funds out of an offset account prior to the date upfront commissions are calculated and redirected after that date for the purpose of maximising commissions.

Offset accounts allows borrowers to "offset" the interest they pay on their loan by the amount of funds held in the offset account. In line with RG277, if a borrower has suffered a loss as a result of misconduct, brokers are required to remediate their client (financially) back to the position they would have otherwise been in.

Recommendation of products associated with your entity

If you are in a situation where the product you recommend is available through you or your business relationship, through a related third-party association, or through a business that you have associations with, this would indicate that there is likely to be a conflict based on potential benefits, profits or incentives flowing back to you or the related entity. In this situation you must disclose your interests and manage the conflict appropriately.

The conflict priority rule will not always prohibit you from recommending a credit product provided by a related party. However, if there is a conflict, you should keep records of your reasoning behind any recommendation you make regarding the product and why the product was in the best interest of the client when compared with other similar products.

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This is particularly important where there is a relationship between the product issuer and:

- You or your business
- A related business where you have a financial association
- A related third party with whom you have a financial or business interest

Disclosure is not enough to manage a conflict of interest

You cannot comply with the conflict priority rule merely by disclosing a conflict of interest or having the client consent to a conflict.

You will need to manage the conflict to ensure the priority of the client can be demonstrated. You must be able to articulate the benefit to the client by being able to record why the actions you have taken will prioritise the interests of the client over your own or those of a related party. If you are unable to demonstrate and record how the clients' best interests will be upheld by you, you should avoid the provision of credit services to the client.

Breaches of the Conflict Priority Rule

If you prioritise your benefits (including but not limited to financial incentives) over the interests of the client, you will be in breach of the conflict priority rule.

5000 penalty units apply = \$1,050,000 fine.

Lender Spread and Lender Usage

Before you start offering credit assistance, you should be confident that you have access to a range of products that would meet the needs, objectives, preferences and priorities of the type of clients that would normally engage your services.

Having an awareness of the products and features that are available in the market and periodically comparing them to those you can access and recommend, may help you to determine whether your panel and accreditations are sufficient for you to act in your clients' best interests.

We expect that the composition of your lender accreditations will allow you facilitate loan applications for the vast majority of client's that approach you. However, MLB do not encourage brokers to apply for accreditations that they have no intention of using. Utilisation rates of lenders will ultimately be monitored as part of MLB's audit process which are guided by the Combined Industry Forum recommendations.

Minimum standards would require that brokers hold at least 10 accreditations with a minimum of 3 of the major banks (that is ANZ, CBA, NAB, Macquarie and WBC) required in the lender spread. Best

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practice would suggest that brokers have a higher spread of accreditations across the lender panel (including the major banks and the second-tier lenders).

MLB expect a reasonable spread of lender accreditations and lender utilisation. However, you should never recommend a specific product from outside your accreditation panel, even if it is available through MLB. If a client is interested in a product from a lender that is available through MLB's panel, but you do not have access to that lender, you should tell the client this.

If you are not satisfied that the products and lenders you can access and recommend will allow you to act in a client's best interests, you must not provide credit assistance to that client.

STOP: Ensure that the top 6 lenders are correctly displayed in your Credit Guide and are being reviewed and updated on an annual basis.

Steps to meet Best Interests Duty

Essentially, meeting Best Interests Duty is a 3-step process. Each of these steps will require numerous actions and this policy will expand on each of the steps outlined below. In all situations, the key aspect in demonstrating that you have acted in the best interests of your clients is to be reflected in the records you keep and how they support your actions throughout the process.

1. Gathering information

This step may involve investigating the client's circumstances, requirements, objectives and financial situation by obtaining information about the client, what they are attempting to achieve and what features they value, and why.

2. Making an individual assessment

This step may involve considering a range of relevant products to identify options that are available to the client to meet their goals and objectives; and assessing what is in that client's best interests.

3. Presenting information and recommendations

This step may involve making recommendations that reflect your consideration of the range of options that align with the client's circumstances.

Making recommendations would typically involve suggesting that a client apply for a particular credit contract and therefore involve credit assistance.

To meet the obligations when making recommendations, you should:

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- Present recommendations and information to the client in a manner that is consistent with acting in their best interests; and
- Educate and equip the client to make informed decisions, including whether to apply the product(s) recommended with your assistance; and
- Follow appropriate processes for engaging and communicating with the client and assisting them to apply for the credit product they have selected.

Step 1 - Gathering Information

The Best Interests Duty does not prescribe how you should gather information about the client or their circumstances. However, good communication and consultation which ensures that your role and the broader application process are understood are generally indicative of acting in the client's best interests.

Note: Gathering information under Best Interests Duty shares similar obligations with the data collection required under Responsible Lending, but they remain separate obligations. Any changes in legislation on Responsible Lending obligations will not necessarily impact on Best Interests Duty.

How can information be collected?

Information may be shared or provided through a face-to-face meeting, telephone or email, video conferencing, or by entering information on an online platform. Chief should be used as the key source of information collection. Data is permissible to be collected from the client through the client portal feature, or you can collect the information via the interview function.

Inconsistent information

Client's may sometimes provide information that is ambiguous or unclear. Sometimes the information provided by the client may appear inconsistent with their circumstances. In these situations, you should make further inquiries to verify the client's circumstances prior to making any product recommendation.

STOP: If critical information is not obtained when inquiring about a client's circumstances, you should refrain from making a recommendation.

Inaccurate or incomplete information

If it is reasonably apparent that the information about a client's individual circumstances is incomplete or inaccurate, you should make further inquiries to obtain complete and accurate information.

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A mortgage broker who provides incomplete or inaccurate information as part of a home loan application will not be acting in the clients' best interests. MLB expect that there will be a number of channels of communication available for an appropriate dialogue to take place.

Financial literacy

If, during the course of your data collection, you become aware that the client has a low level of financial understanding, you will need to make more detailed investigations and record notes about the client's situation. Unless you are able to clearly understand the requirements and objectives from the client and ensure that there are no inconsistencies in their expectations, you will be unlikely to meet your Best Interests Duty.

Step 2 – Making an Individual Assessment

There is no prescribed process or set of factors that you must consider when conducting an assessment into the client's financial position and the appropriateness of the credit facility. However, you should consider each client's individual circumstances, including any matters that may affect what is in that client's best interests.

Factors that should be considered in the assessment

MLB expect that you conduct a broad investigation into the client's requirements and objectives as part of the assessment process. The following factors should be considered when assessing whether a credit product will be in a client's best interests.

Factors that can be considered	Potential example
If the client has more than one need or objective, you will need to prioritise the relative importance of each to the client; and resolve any conflicts or inconsistencies between competing needs or objectives are resolved.	Clarifying the importance of a product or lender feature vs the need to have the loan approved in the relevant timeframe.
When assessing the loan type, what would be most appropriate and, in the client's, best interests.	fixed rate vs variable rate, line of credit facilities, interest in advance.
From the lenders or products that meet the client's needs and objectives, are there any policy issues that are inconsistent with those needs and objectives.	Is the security property to be utilised acceptable by that lender (postcode, unit size)? Does the client want to save money on the interest rate or save money by avoiding paying LMI?
The client's priorities and preferences for different features.	<ul style="list-style-type: none">• Interest rate (cost priority)• Ongoing fees (cost priority)

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	<ul style="list-style-type: none">• Redraw facility (accessibility priority)• Offset account (saving and access priority), packaged products etc.
The term and structure of the credit product relative to the client's objectives.	Loan term and the impact that it might have on exit strategy, any interest only terms or fixed rate terms and the risks associated with them.

Feature conflicts in client's requirements

When a product feature does not meet the best interests of the client, you should make reasonable efforts to explain to the clients why these features may not be appropriate or may not offer good value to them. It is essential that you understand what is important to your client before making a recommendation. The assessment should rank the priority of each identified feature.

Product or policy conflicts

Where a potential conflict exists between the clients' requirements and the lender policy of a product requested, this will need to be explained to the client and appropriate options presented. If the client decides to still proceed with an application for that product, you may assist the client with that application as they have provided assurances that it is in their best interests.

The client asks the broker if they should take out an interest-only home loan on a property they are looking to buy. The home loan will have a higher interest rate than a principal and interest home loan. The broker helps the client to understand the difference in cost of the two home loans, and other differences in the way in which they operate, including that the client will only build equity if the property's value increases or they make additional repayments, and the implications of moving to higher repayments at the end of the interest-only period.

Education of Government schemes and grants

You are expected to educate clients about the availability and eligibility requirements of applicable Government schemes, even if they have not raised these matters with you.

Expertise

Consider if you have the expertise to make an assessment that meets the client's needs, objectives, preferences and priorities. If you are not confident in a particular market segment, you may not understand what is in the client's best interests. You should not be attempting to offer credit assistance in areas that are outside the scope of your competence.

Assessing foreseeable changes

The Best Interests Duty applies to the loan assessment at a point in time and based on the information available at that time. However, you must consider any reasonably foreseeable changes to the client's personal circumstances and financial situation. There is an obligation to confirm with

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the clients about potential changes that they can reasonably foresee in the near future such as change of employment, unpaid leave, parental leave, etc.

Assessment of existing client's

You cannot rely on any information that you have gathered previously in making a new assessment (for a refinance or loan switch to a different product). It does not matter whether you have provided credit assistance to the client before. You will need to act in the client's best interests when making that suggestion and re-assess their requirements and objectives in accordance with the best interest's policy.

Step 3 - Presenting Information and Recommendations

When you recommend a product, you should present the information to the client in a way that clearly articulates how taking the recommended action would achieve their objectives and be in their best interests (relative to the other options available).

Where the client is not acting in their own best interests

A client may seek products that may not be in their own best interests. In these situations, you should present your client with alternative options which are in their best interests and explain to them why your recommended alternatives are more appropriate to their requirements and objectives.

If the client insists on proceeding with the product they have initially requested, you should make notes of this and obtain the client's acknowledgement before proceeding to assist them to obtain the product they have chosen.

If the client has stated that they only want to deal with a particular lender and are not interested in any other lender, this should be noted in their requirements and objectives and stated in the recommendations field in Chief. As part of the comparison, you should still recommend products from a broad range of lenders including the lender specified by the client (as long as they are all in the best interests of the client).

Cost considerations in comparisons

A failure to consider cost and investigate the lowest cost options available to the client may suggest non-compliance with the Best Interests Duty. Any situation where a higher cost loan is recommended will need to be supported by evidence demonstrating why that recommendation is in the clients' best interests. Note that the lowest interest rate may not dictate lowest cost and other product features will impact on overall 'cost'.

The product with the lowest interest rate is not necessarily the lowest cost option for all clients. For example, a product with access to an offset account or redraw facility may offer certain clients

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greater flexibility and save them a considerable amount in interest. Additionally, annual or establishment fees associated with some loans or packages may mean the loan will be more expensive for the client despite a lower interest rate.

Comparing features and costs

Although cost is a key consideration in meeting Best Interests Duty, it is not the only matter relevant to in the product recommendation. Some client's circumstances will mean that the benefits provided by particular features might outweigh the importance of cost. This would be the case where a lender with a higher interest rate is selected as they will be able to approve the loan on time, while the lender with the lower rate could not meet finance approval timeframes.

Number of options presented

In most instances, you should present clients with more than one option. MLB and industry best practice recommend 3 options be considered in the comparison. Where there are multiple options for a client to consider, these should be presented so that it is easy for the client to compare the options available.

MLB recognises that credit policy restrictions, pricing practices and risk appetite of the lender may limit the available choices for some clients in accessing product.

In these situations, you should explain and document why the products are not available, and the limitations involved with the available option(s).

In a situation where only one product is utilised for the recommendation, you must have adequate commentary in the notes to indicate why one product was selected and describe why other products or lenders weren't possible options.

Documenting the recommendations

MLB recommends that an appropriate description is entered into the recommendations field in Chief to adequately describe the product selection process. A narrative summary can be an effective way of outlining why particular product(s) were recommended, the decisions made by your client, and the steps you took throughout the process to act in your client's best interests.

Responsible Lending Obligations

Introduction

This policy forms part of MLB's procedures about applications for credit products and will assist you to meet the responsible lending requirements of the National Consumer Credit Protection Act 2009. You must comply with this policy when you provide credit assistance to a client.

Please note that this policy cannot specifically address all possible situations that you may face when

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providing credit assistance to clients and you must also comply with the requirements of the law, ASIC's guidance in Regulatory Guide 209: Credit licensing: Responsible lending conduct, the MLB Member Agreement which permits you to introduce credit applications through MLB and each individual lender's policies, procedures and other requirements. If you are an MLB credit representative, you must also comply with the terms of your MLB Credit Representative Agreement. The responsible lending requirements for brokers require you to follow a number of steps before you make a preliminary assessment about whether a credit contract is not unsuitable for the client. The primary steps that you must take are:

- make reasonable inquiries about the client's requirements and objectives;
- make reasonable inquiries about the client's financial situation;
- take reasonable steps to verify the client's financial situation;
- give responsible lending documents to the client at the appropriate times;
- document your actions and the results of your inquiries;
- ensure the product selected meets the requirements and objectives of the client; and
- ensure the client is able to meet the commitments without experiencing financial hardship.

This policy sets out minimum requirements with respect to each of these matters and provides some additional information about identifying your clients.

You can only rely on information if you have a reasonable belief that it is true. You must not give credit assistance to a client based on information that you know, or suspect is untrue.

Requirements and Objectives

Before making a preliminary assessment, you must make reasonable inquiries about the client's requirements and objectives in relation to the credit contract. You should consider all of the client's requirements and objectives and the loan features required to achieve them. You must:

- make reasonable inquiries about the client's requirements and objectives;
- document those requirements and objectives in the Preliminary Assessment and Credit Proposal document (you must prepare a new Preliminary Assessment if any of the client's requirements and objectives change including an explanation of the changes);
- take all requirements and objectives into consideration when reviewing available products and ensure all suggested products meet the client's requirements and objectives; and
- keep adequate records to demonstrate the inquiries and verification that you have undertaken. You must save these records in Chief.

Responsible Lending for All Product Types

As a minimum, the following areas must be addressed and captured in the requirements and objectives section of the *Preliminary Assessment and Credit Proposal*:

- purpose of the loan (this must be specific and consistent with the size of the loan);
- amount of credit sought (this must be consistent with the purpose of the loan);
- loan term required and why;
- repayment type required and why (e.g. principal & interest or interest-only);

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- product features required and why (e.g. fixed or variable interest rate, offset account, redraw facility, credit card, transaction account package); and
- other requirements/considerations (e.g. subject to finance clause, settlement deadline, pre-approval requirement, requests for specific lender, LMI lender requirements).

Responsible Lending for Specific Product Types

Interest-only periods

Due to the additional interest payable over the life of a loan and the fact that the principal will not be paid down during the interest-only period, a loan with an interest-only period has an increased risk of not meeting a client's requirements and objectives. As a result, you must record the following additional information if an interest-only period is proposed.

A statement confirming you have explained that:

- interest-only loan repayments will not reduce the principal owed during the interest-only period;
- the repayments required to pay out the loan will increase after the interest-only period ends to cover both interest and principal payments;
- the applicant is likely to pay more over the life of their loan than if there was no interest-only period;
- length of interest-only period required (if greater than 5 years include a detailed explanation of why it is required); and
- client servicing of principal and interest repayments must be calculated over the remaining amortised term of the loan (after the interest-only period).

A description of the requirement or objective that the interest-only period will achieve, such as:

- taxation reasons;
- temporary reduction in income (with detailed explanation);
- anticipated non-recurring large expense items (with detailed explanation);
- variable income (with detailed explanation);
- to create funds for investment purposes;
- principal reduction in an offset facility; and
- other (with detailed explanation).

Lines of credit

As there may be no specific loan term associated with a line of credit and the overall cost of the loan may be greater than for other types of credit contracts, line of credit products are at greater risk of not meeting the client's requirements and objectives. As a result, you must record the following additional information for lines of credit:

- potential costs and benefits – a note confirming that you have explained the potential interest

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costs to the client and an explanation of the benefits that will be derived from the product which outweigh the potential costs;

- if the line of credit amortises after a period, then client servicing must be calculated over the remaining amortised term of the loan; and
- exit strategy – when and how does the client intend to repay the balance of the loan?

Fixed interest

Due to their restrictive nature and the potential additional fees/costs (e.g. if a loan is terminated prior to the end of the fixed interest period or if additional repayments are made – break costs), fixed interest products may be at greater risk of not meeting the client's requirements and objectives.

As a result, you must record the following additional information for fixed interest products:

- A statement confirming that you have explained the potential additional risks and costs of the fixed interest product to the client and an explanation of the reasons why they still want to proceed with this type of product (including which requirement/objective has priority).
- You should also discuss the rate lock options available with the client, and the costs and timings associate with the rate lock options.

Refinances/Switches

There must be an overall cost saving to the client when switching/refinancing. If the overall cost savings are minimal the new product must better meet the client's requirements and objectives. As a result, you must record the following additional information for an application to refinance or switch products:

- reasons for the refinance/switch;
- reasons why the new loan term will differ from the term remaining on the current credit contract;
- information about any additional costs and whether LMI will be payable;
- a statement confirming that you have explained the additional interest costs associated with refinancing over a longer loan term to the client (if applicable) and an explanation of the reasons why they still want to proceed with the refinance/switch (including which requirement/objective has priority); and
- if the new credit contract does not have all the features of the existing credit contract, an explanation about how it better meets the client's requirements objectives and why those loan features are no longer required.

Product switches can include:

- changing from a fixed rate to a variable rate (or vice versa) with the same lender
- changing products from P & I repayments to IO repayments (or vice versa) with the same lender
-

Note: If a product switch with the same lender results in a new loan contract being issued, you must complete all of the required processes as if it is a new loan and a new credit activity is being conducted. This would include all responsible lending/BID obligations and all disclosure documents being issued.

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Debt Consolidation

When consolidating short term debts (e.g. credit cards and car/personal loans) into a longer-term credit product, the total interest costs are likely to increase significantly if the debt is paid off over a much longer term (e.g. 20-30 years). As a result, you must record the following additional information for an application that includes debt consolidation:

- reasons for the consolidation and an explanation of how the client will benefit; and
- a note confirming that you have advised the client that additional interest may be payable if the short-term debts were paid off over the entire term of the debt consolidation loan.

Self-Managed Superannuation Funds (SMSFs)

SMSF's are financial products which are regulated under the Corporations Act. You must not advise about or deal in SMSF's if you do not hold an AFSL authorising you to do so (or have been appropriately authorised by an AFSL holder). MLB does not hold an AFSL, and you are not authorised to provide SMSF advice or recommend SMSF products for or on behalf of MLB.

When providing credit assistance to an SMSF trustee you must ensure that you follow the relevant lender's procedures. Please note, some lenders will require you to undertake specific SMSF training as part of their accreditation process.

When dealing with SMSF you must:

For an Individual Trustee (regulated)

(E.g., John Smith as trustee for the Smith Super Fund)

Follow all of the NCCP Responsible Lending and Best Interests Duty steps.

For a Corporate Trustee (non-regulated)

(E.g., JSmith Pty Ltd as trustee for the Smith Super Fund)

Issue the Credit Guide (including MLB Privacy Consent) to all directors and co-applicants.

You should also, as best practice, issue a Preliminary Assessment and Credit Proposal to provide a record of the interview process and inform the client of funds position, product fees and repayments. The provision of the NCCP disclosure documents is not a requirement under the legislation but is good practice.

If a client has questions about SMSFs you should tell them to contact their financial adviser.

You must keep a record of any financial adviser involved in an SMSF transaction (including their AFSL number). Save these records in Chief.

Reverse Mortgages

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Before making a preliminary assessment in connection with a credit contract for a reverse mortgage you must satisfy the following additional requirements. You must also have satisfied the lender's reverse mortgage training and accreditation requirements.

For reverse mortgages you must make reasonable inquiries about the client's requirements and objectives in meeting possible future needs, including:

- a possible need for aged care accommodation;
- whether the client prefers to leave equity in the property for the client's estate; and
- are there or will there be any other persons residing at the property.

Prepare projections

Prior to undertaking your preliminary assessment, you must:

- prepare projections, calculated using an ASIC approved website (e.g. Money Smart website at www.moneysmart.gov.au) in accordance with ASIC's instructions for making projections that are included in the calculator;
- show the client the projections (in person) and have them signed by all borrowers; and
- give the client a printed copy of the projections. This can be done by mail or e-mail, or by another form of electronic communication agreed to by the borrower.

Reverse Mortgage Information Statement

Prior to undertaking your preliminary assessment, you must also give to the borrower a Reverse Mortgage Information Statement titled 'Key Information About Reverse Mortgages'. This document explains the impact of interest capitalisation on equity in the mortgaged property and highlights some important issues that a client should consider when deciding whether to borrow using a reverse mortgage. You must also include a Reverse Mortgage Information Statement on your website and give a copy to a client on request.

Co-inhabitants

If the suggested lender's reverse mortgage credit contract does not include a provision for a person other than the borrower to have a right to occupy the reverse mortgaged property, you must not provide credit assistance unless you have given the borrower an NCCP *Form 7A – Disclosure about credit contracts (reverse mortgages)* document.

Loan to value ratio requirement

Your preliminary assessment must also confirm the loan to value ratio (LVR) does not exceed the applicable percentages based on your client's age. The Moneysmart website (moneysmart.gov.au) provides information and calculators to review how much can be borrowed. Review of lenders policies and requirements is recommended to ensure you are providing the client accurate information.

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Independent advice

All borrowers are required to obtain independent advice for a reverse mortgage. You must use the lender's Independent Legal Advice Certificate and/or Independent Financial Advice Certificate and retain copies on file.

If the lender does not require independent financial advice, it is recommended this still be obtained. A signed and dated letter from the borrower's accountant/financial planner on letterhead confirming they have provided financial advice in relation to a reverse mortgage may be obtained and held in your client file.

Extensive inquiries

The consequences for a client of borrowing using an unsuitable reverse mortgage are potentially severe. Therefore, your inquiry and verification process must be extensive. For example, because the loan may impact Centrelink payments, you must inquire into whether the client is eligible for such payments and advise the client to check how the payments may be impacted by the loan.

Should the borrowers have doubts or reservations about entering into a credit contract once independent advice is given, you must not compel the borrowers to proceed with the contract.

Income Inquiries and Verification

As part of your Best Interest Duty and Responsible Lending obligations, before making a preliminary assessment, you must make reasonable inquiries about the client's financial situation and take reasonable steps to verify the client's personal and financial situation. To assist you to meet this requirement you must:

- collect the relevant supporting documents;
- ensure the supporting documents contain adequate information to verify the client's income;
- check each document and consider whether there is any reason to suspect that it may not be genuine;
- make notes setting out how you calculated the income from the supporting documents and why that calculation method is appropriate (you must have a reasonable basis for the method that you have used to calculate income);
- you must also keep adequate records to demonstrate the inquiries and verification that you have undertaken: and
- save these records in Chief.

Financial institution statements (e.g., to verify salary credits) must be reviewed as part of your inquiries

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about the client's financial situation.

Note that a mortgage brokers reasonable inquiries and reasonable verification does not explicitly align with the lender's documentation checklist, or the expectations of evidence set by lenders. Mortgage brokers must make their own independent investigations and source sufficient evidence to justify their verification standards.

MLB require a minimum of two sources of income evidence used as part of the income verification process. As an example, this could be payslips + salary credits, or payslips + the clients ITR's.

MLB has produced a documentation checklist of what would be regarded as a best practice standard, and the details are included within this document. Ultimately, a broker cannot rely on the minimal standards set by the lender and should have more rigorous standards in place to ultimately allow an accurate preliminary assessment to be made. The Preliminary Assessment will adequately determine if the clients have the capacity to service the proposed loan without financial hardship.

Documentation Collection Processes

Electronic document collection

Documents should be collected electronically. While MLB acknowledges that there is no absolute guarantee that documents sent via email remain authentic, having an email trail that demonstrates the information was received for a client will protect you in the event that the authenticity of those documents are challenged. In situation were scanned evidence raises suspicions of being manipulated, the hard copy document may be used for comparative analysis purposes.

Document collection via broker software

Files should be transferred across the Chief platform where possible. The file transfer system through Chief offers a level of encryption that provides bank level security, while also allowing documents to be placed directly into the system by the client.

Other information that is relevant for the application can also be received through the client portal in Chief.

Use of non-encrypted messaging or file transfer

MLB brokers should not accept any documentation (file transfers) or any critical information that is provided through a non-encrypted service. Any information received should have a log history that remains intact and through a source that allows encryption.

As an example, WeChat messages are not end-to-end encrypted, which means that cyber-risks to documentation validity is high. MLB brokers must not accept any documentation sent through this carrier service.

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Documentation Standards

The following verification standards are to be followed by MLB credit representative and all brokers who aggregate under the MLB network.

Identification

2 forms of identification (including 1 primary photographic) for each applicant and guarantor (if applicable). If originals of identification documents are not sighted, copies of ID must be certified OR if undertaking a video meeting, screenshot of client(s) holding up their ID will suffice along with copies of ID on file. VOI platforms that are approved by MLB may also be used.

Note, lenders will have their own requirements.

Lender Originated Documents

MLB requires evidence of submission/application information submitted to the lender. This can be achieved by saving a copy of the completed loan application or electronic submission summary to the client file in Chief. This should be performed at submission to ensure the data is available to extract.

Lender application documents

Full copies of all lender-originated documents required for the purpose of completing the application.

These may include:

- Lender application form
- Lender privacy disclosure (if separate to application form)
- Lender VOI certificate (if separate to application form)
- Documentation checklist
- Serviceability calculator or UMI spreadsheet
- Apply Online/Loanapp portal submission summary

Lender approval correspondence

Copies of conditional and unconditional approval communications, either PDF letters or scanned emails depending on the lender.

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Bank Account Statements

Account statement minimum standard

Three months (no older than 45 days) of statements from all bank accounts, credit cards and property-related loans in the clients' names and in any business (if self-employed), name associated with the clients (business trading statements), at a minimum. Automatically covers any lender requirement to verify genuine savings.

Currency of account statements

All statements provided by clients must show end dates within 45 days of the date of the Preliminary Assessment. If this is not the case, a current transaction history matching the account numbers on the statements must also be provided.

Income and Expense Verification Tools

Data scraping tools

The use of 'Illion Bankstatements' technology or 'Investmentlink Cashdeck' technology is considered to be a reasonable and effective method of data collection when assessing a client's transaction history, and Bankstatements.com is able to populate information directly into Chief for the purpose of expense itemization for review by the broker.

Brokers will need to obtain permission from clients to use these data scraping technologies. These tools have, so far, demonstrated reliability and safety in how they obtain financial data. Information via BankStatements.com is entered through Secure Socket Layer (SSL/TLS) which creates an encrypted connection between the client's browser and the data scraping servers. This transmission and receipt of information is kept encrypted at all times using 256-bit encryption. However, brokers must ensure that any data received from these tools are retained and stored appropriately, using appropriate data storage systems that meet acceptable standard.

Open Banking/Open Finance within consumer data rights (CDR)

The Consumer Data Right (CDR) will allow clients to share their financial data with trusted advisors. Mortgage brokers have been recognised as trusted advisors for the purposes of receiving this information. While data scraping tools have been the industry standard, MLB recognises that CDR will be perceived as a safer way for clients to digitally share their data as no passwords will need to be disclosed.

This use of Open Finance Platforms will ultimately become the gold standard and MLB will approve specific platforms from time to time.

The Consumer Data Right (CDR) is a key initiative of the Australian Government's Digital Economy

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Strategy, promoted as part of Australia data-driven economy. The federal Government will encourage consumers to utilise one of these platforms as a method of sharing data between consumers, businesses and the Government.

Verification of PAYG Income

MLB requires a minimum of 2 forms of PAYG income verification regardless of the lender's requirement.

Payslips

Two consecutive computerised payslips, most recent payslip end date within the last 45 days, preferably showing YTD income.

Group Certificate/Payment Summary or Notice of Assessment

Most recent edition of either document if base income alone is factored for servicing. Most recent and previous editions of the same type of document (2 consecutive years) if bonuses, commissions, overtime, allowances etc. are factored in for servicing. Where a client has changed jobs, all Group Certificates/Payment Summaries covering the relevant financial year(s) are required.

Salary credit statements

Three months of statements from salary credit account(s), must show salary credits matching the dates of payment on the payslips provided. If this is not the case, a current transaction history matching the account numbers on the statements must also be provided.

Recent change in jobs (within six months), or verifying overtime is a condition of employment

Employment letter on employer letterhead, stating the client's name, their job title, their basis of employment (permanent full-time, permanent part-time, casual), their start date, their salary, their additional entitlements, and their probation end date (if applicable). Signed by an appropriate authority with contact details clearly shown.

Parental leave

Letter from employer stating the client's name, their job title, their basis of employment (permanent full-time or permanent part-time only) the salary, their additional entitlements, and their return-to-work date. Signed by an appropriate authority with contact details clearly shown. Salary credits do not need to be demonstrated.

Verification of Self-Employed Income, Full Doc

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MLB requires a minimum of 2 forms of self-employed income verification regardless of the lender's requirement.

Tax returns

Most recent and previous editions of individual and company tax returns and notices of assessment.

Addbacks

Robust business case regarding why addbacks have been included for servicing. These can include interest on business loans, limited depreciation, and one-off business expenses.

Where previous and current tax returns are not used to calculate servicing under alternate lender policy regarding self-employed income, e.g. ANZ one year tax return or Westpac Fast Track policy: Robust business case regarding why the specific credit niche has been used and why the individual(s) requesting the loan is/are creditworthy.

Verification of Self-Employed Income, Low Doc

MLB requires a minimum of 2 forms of self-employed income verification regardless of the lender's requirement.

BAS statements

Most recent twelve months (or four quarters) of Business Activity Statements.

And at least one of the following:

- 1. Accountant's declaration**

Letter from client's accountant, either on letterhead or on lender stationery as required (e.g., alt doc), detailing the client's annual income and liability position.

- 2. Bank statements**

Three months of statements from all bank accounts, credit cards and property-related loans in the clients' names, and six months of statements from all bank accounts, credit cards and property-related loans in the business name.

Other Income

Rental income

Most recent rental statement or current lease agreement for all investment properties owned. If neither is available, see non PAYG-related income policy.

If investment property is being purchased, signed rental appraisal from a licensed real estate agent and supported by evidence of market research (real estate websites) for comparable properties in

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comparable locations.

Centrelink income, including DSP, Family Tax Benefit parts A and B, and child support

Letter from Centrelink dated within the last twelve months detailing amount of entitlements; bank statements provided should correlate showing credits.

Other income streams, including investment income, rental income from privately managed investment properties

Most recent and previous editions of individual tax returns detailing source(s) of income.

Property Documentation

Contract of sale

Full Contract of Sale including special conditions, listing agreed sale price and client details in the purchaser section.

Construction

Full copy of fixed price building contract from a registered builder, including building plans, agreed costing and client details.

First Home Owners Grant

Fully completed First Home Owners Grant form.

Rates notices

Most recent rates notice on all properties owned by the clients, should not show any arrears.

Evidence of Funds to Complete

Deposits already paid

Evidence of receipt of payment of deposits already paid from the relevant agent, e.g., real estate agency or private vendor.

Savings account statements

All account statements used as evidence of funds to complete to show same date ranges.

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Gifts of funds or equity

Statutory declaration completed by related party and witnessed by an authorised person, attesting the value of the funds gifted, or that “equity” is being gifted, to the applicants as a non-refundable and non-transferable gift.

Where genuine savings is not evident from bank statements

Twelve-month rental ledger showing good conduct in rental repayments.

Where non-genuine savings policy is required, and origin of funds is not gift related

Statutory declaration from clients declaring source of funds intended to be used for deposit.

Documentation of Existing Debts

Property-related, personal, car loans and credit cards (ongoing or to be refinanced)

Three months statements (not older than 45 days) showing lender, client name, account number, interest rate, length of term and monthly repayment amount.

OR

CCR Report verifying conduct, liability limit, lender along with loan summary to show interest rate and repayment.

Further steps are required to be taken to verify interest rate and repayment amount details which may include:

- Internet banking loan summary; or
- Lender statement

Note: If adverse history is evident on CCR for any liability, 3 months statements will need to be obtained, and a documented explanation provided by the client.

Business or tax debt to be refinanced

Three months of statements (no older than 45 days) from business loans or ATO tax portal in either the clients’ names or the associated business names, plus a robust business case regarding the cost benefit of refinancing such debt onto their residential property, and why the clients are creditworthy.

HECS debt not being refinanced

Monthly repayment amount to be declared based on total income used for servicing, inclusive of income derived from non-PAYG sources, e.g., proposed and existing rental income. Check

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<https://www.ato.gov.au/Rates/HELP,-TSL-and-SFSS-repayment-thresholds-and-rates/> for current repayment income (RI) percentages.

Buy now pay later (BNPL)

Copy of Buy Now Pay Later current account balance and limit, e.g. Afterpay, ZipPay, Store cards.

Verification of Purpose for Cash Out

Cash out, up to \$50,000

Written declaration from clients attesting to the purpose of required funds.

Cash out, above \$50,000

Reasonable quotations for all chattels and purposes required if the purpose is for home improvements.

For residential investment purposes (cash out for a deposit on another property) there should be reasonable evidence of the imminent property purchase.

For any other investment purpose that does not relate to property acquisition, a letter is required from accountant or financial planner.

Other Documentation Requirements

Secured or unsecured loans or credit cards closed within the last three months

Letter of closure from lender, or final statement from lender showing \$0 owing and limit has been cancelled.

Living at home rent-free

Statutory declaration completed by either parent/home owner and witnessed by an authorised person, attesting the client lives at home and does not pay rent or board.

Where child maintenance is being paid

Most recent Centrelink advice dated within the last twelve months advising correct amount of child maintenance to be paid; bank statements (no older than 45 days) provided should correlate. If the deduction is taken from pay directly, payslip deductions must corroborate Centrelink advice.

Professional membership LMI waiver, including Medico

Copy of current relevant professional membership certificate, e.g., AHPRA, CPA, Law Society.

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Verification of Exit Strategy

Client is 50 years or older and the loan term exceeds a reasonable age of retirement

Documentation relating to property, superannuation, or other liquid assets deployable in order to pay out the loan.

Acceptable documentation may include:

- Investment property rates notice(s) plus either:
 - Most recent loan statement, or
 - Evidence of clear title
- Most recent superannuation, share or managed fund statement

Assets not acceptable for use as part of an exit strategy include:

- Expected windfalls, including distributions via probate
- Chattels, including but not limited to:
 - Vehicles
 - Plant/equipment assets
 - Valuables
 - Other home contents

Credit File/Credit Defaults

Where credit file has been obtained

Full copy of credit file with notes regarding any credit enquiries which have been entered within the last twelve months.

Credit defaults evident

Robust business case as to what the circumstances were leading to the default(s) and why the clients are creditworthy.

Evidence of Guarantor Suitability

Guarantors

Where possible, interviews to be conducted in person and must be separate from the borrower(s) to ensure they are not under the influence or pressure from the borrower(s) to provide the guarantee. Ensure you strongly recommend the guarantor(s) seek independent legal and/or financial advice

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before entering the guarantee (lenders will also require evidence of this).

If the guarantor(s) have difficulty understanding their obligations due to poor English or impaired physical or mental capacity, they must obtain independent legal/financial advice.

Inform the guarantor(s) they have 3 days to review the guarantee (once issued by the lender) prior to returning the executed guarantee, unless they have an exception under the Banking Code of Practice, in which case they may return the guarantee earlier.

You are required to identify each individual guarantor in-line with MLB's ID policy and keep clear copies of the identification documents on the client file. These records are to be saved on file and in Chief.

Guarantors must also be provided a Privacy Consent (included with the Credit Guide) that is to be acknowledged by the guarantors for the purposes of data retention, data storage and management of their personal information.

Security guarantee

Ensure the guarantor(s) understand that should the borrower(s) be unable to meet their loan commitments, the guarantor(s) may be required to pay the guaranteed amount. Save all correspondence on file in Chief.

Verify ownership of asset via the following means:

Term deposit

- Either:
 - Most recent term deposit statement showing names of guarantors, balance held and term deposit maturity date, or
 - Most recent savings account statement in the names of the guarantors showing balance to be placed in term deposit prior to settlement.

Investment property

- Rates notices for each property owned by the guarantor(s).

Owner-occupied property

- Rates notice for the owner-occupied property; and
- At least one of the following:
 - Lender servicing calculator showing ability of the guarantors to service the guaranteed amount, or
 - Evidence of exit strategy in line with "Verification of exit strategy" requirements above, or

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- Clear independent legal advice regarding suitability of proposed guarantors to act in such a capacity.

Servicing guarantee

Ensure the guarantor(s) understand that the borrower(s) is relying on payments from them to meet the repayments of the loan as the borrower's income is not sufficient to meet repayments.

Guarantor(s) financial position, including income will be required to be assessed and verified in-line with MLB's policy of applicants.

Expense Inquiries and Verification

In addition to investigating and verifying income through appropriate documentation, making reasonable inquiries about the client's financial situation explicitly includes the assessment of expenses.

To assist you to meet this requirement for expenses verification you must:

- collect supporting documents (described in documentation best practice guidelines);
- ensure the supporting documents contain adequate information to verify the client's expenses (described in documentation best practice guidelines);
- check each document and consider whether there is any reason to suspect that it may not be genuine;
- make notes setting out how you calculated the expenses from the supporting documents and why that calculation method is appropriate. You must have a reasonable basis for the method that you have used to calculate expenses; and
- you must also keep adequate records to demonstrate the inquiries and verification that you have undertaken, and these are to be saved in the client file in Chief.

There are two categories of expenses which must be reviewed and verified:

- fixed expenses; and
- living expenses (includes discretionary expenses).

Financial institution statements must be utilised as part of your inquiries about the client's current financial situation. You must also take reasonable steps to assess their ongoing living expenses in light of reasonably foreseeable changes with their financial position.

Fixed Expenses

Fixed expenses are expenses that are not discretionary in nature (such as rent, repayment of existing debts and child support). These have already been described in documentation on best practice guidelines.

Adequate documentation must be obtained to assist you to review and verify the client's fixed expenses.

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Living Expenses

Living expenses form an important part of the client's financial situation. They vary from household to household, and it is essential that inquiries are made to determine the client's *actual* living expenses and that these inquiries are verified.

To assist you to meet the obligation to make reasonable inquiries about a client's financial situation, you must complete a budget worksheet during the fact find stage. When completing a budget worksheet (part of the Client Needs Analysis), you should:

- record a response for each of the living expense categories listed (if the client has no expenses in a particular category e.g. there are no childcare costs because the client does not have children, a "0" is to be recorded);
- provide an explanation for any responses with a zero or unusually low expenditure;
- prepare one budget worksheet per household;
- ensure that the budget worksheet (Client Needs Analysis) is signed by all applicants; and
- include the new monthly expenses that will be payable as a result of the proposed loan proceeding (this may include owner occupied expenses, investment property expenses, additional insurances or transport costs).

For investment property applications, lenders need to understand which expenses are attributable to the rental property. For investment property applications you must:

- include the investment property expenses (such as Council rates) in the total living expenses;
- in the comments/notes section specify the amount attributable to the investment property expenses.

Living Expense Categories

Category	Examples
Owner occupied property expenses	Utilities, repairs and maintenance, body corporate and strata fees, rates, taxes, levies
Investment property expenses	Utilities, repairs and maintenance, body corporate and strata fees, rates, taxes, levies
Telephone and internet	Telephone (mobile and home), internet, streaming services (e.g., Stan, Netflix, Spotify, Apple Music)
Category	Examples
Groceries	Food, toiletries, cleaning products
Recreation and entertainment	Alcohol, tobacco, gambling, restaurant meals, take-away food, membership fees, subscriptions, pet care, holidays
Clothing and personal care	Clothing, footwear, cosmetics, hairdresser, beautician
Medical and health	Doctor, dentist, physiotherapist, optical, pharmaceutical

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Transport	Public transport, vehicle running costs (fuel, servicing), parking, tolls, vehicle registration
Education	Private school fees, school levies and voluntary contributions, books, uniforms, extra-curricular activities, higher education costs
Childcare	After/before school care, day-care, occasional care, nanny, babysitter
Insurance	Health, life, income protection, home and contents, vehicle, landlord
Other	Any other material expenses advised by the client or identified during the review and verification process

NOTE: Chief is being updated on a regular basis with the relevant LIXI categories for living expenses. The living expenses listed in Chief should be completed appropriately based on your comprehensive assessment of the client's current financial position and their future financial position.

Verification of Living Expenses

In an appropriate assessment of living expenses, you must review each category listed to ensure that the amounts are reasonable given the size of the household and any other information that you have.

You must record the reasons for any responses with a zero or unusually low expenditure. Where possible you should ask the client for documents that would verify an unusually low expenditure.

If you have reason to suspect that information provided by the client is incorrect (e.g., based on the number or ages of dependents, the geographical location of the client, the age of the client, or other factors that you are aware of, you must make further inquiries and document your findings and information sources.

Standard living expenses verification

Expenses as itemised in MLB Preliminary Assessment and Credit Proposal document should be consistent with an appropriate analysis of the three months' transaction account and/or credit card statements provided.

Chief will compare the total living expense figure to the lender's benchmark. If the declared living expenses are materially lower than the lender's benchmark, you must provide a detailed explanation of the reasons for the lower-than-expected living expenses.

Where living expense figure declared is lower than is evident from bank statements provided, MoneySmart budget planner or similar budget planning calculator should be completed by applicant(s), with clear itemisation of expense categories, plus a written client declaration that they represent their true living expenses.

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Other Relevant Factors

Other relevant factors that should be considered include:

- potential impact of an unsuitable credit contract – you should make more extensive inquiries where the potential negative impact on the client is likely to be relatively serious if the credit contract is unsuitable (e.g. if the size of the loan is large relative to the client’s capacity to repay the loan);
- complexity of the credit contract – you should make more extensive inquiries where the credit contract has complex terms (e.g., a reverse mortgage will require extensive inquiries including potential impact on Centrelink payments);
- capacity of the client to understand the credit contract – you should make more extensive inquiries if the client has limited capacity to understand the credit contract; they have conflicting objectives; they are confused about their objectives; or there is a mismatch between their objectives and the product they are considering; and
- File notes to be recorded of any discussions within Chief.

Serviceability and Substantial Hardship

Compare the lower of the Applicant Declared and Lender Calculated Uncommitted Monthly Income (UMI), with the lender’s assessed proposed repayment on the product recommendation page. If there is a deficit amount, your preliminary assessment has determined the product may be unsuitable. You must not proceed to submit the application without further investigation.

In some cases, there may be an error in the way the UMI has been calculated in Chief, or there may be other factors that will affect whether the credit contract is unsuitable. Before proceeding you must include a detailed explanation of why the credit contract is not unsuitable despite the UMI calculation. You must keep adequate records of this explanation and provide a copy of the reasons to the client. Save this information in Chief (together with a copy of the lender’s serviceability calculator showing serviceability).

In addition to ensuring that the lender’s serviceability requirements are met you must also separately and independently consider whether the repayments will result in substantial hardship for the client. If this is the case, the credit contract will be unsuitable, and you must not recommend or assist the client to apply for the loan.

Writing your Own Home Loan

Submitting your own home loan is not recommended by MLB, although we appreciate that this is an area that has frequently been practiced.

If there is a justifiable reason for you to submit your own home loan, you must adhere to the following processes:

- Ensure the lender that you are using accepts submissions for your own home loan
- Seek permission from the MLB Compliance Team

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This permission will need to be validated by providing:

- a) the rationale for why you wish to submit the home loan yourself
- b) supporting evidence from the lender that they will accept your submission
- c) validation of the income through existing commission payments

The approval will be at the discretion of the Compliance Team and there are no guarantees that requests of this nature will be approved.

If approved, you must ensure all information and documentation is saved in your own file in Chief.

Risk Protection

From October 2021, new reforms relating to anti-hawking and add-on Insurance came into force. These provisions place restrictions on the type of conversation that can be initiated by mortgage brokers with regards to insurances.

1. Anti-hawking provisions relate to whether there is sufficient scope in the sale of the primary product to infer that the referral of the insurance offering is appropriate. To have an exemption from the hawking prohibition, the client must specifically consent to being contacted for the purpose of the add-on insurance product and the insurance offering must be reasonably within the scope of the client's consent.
2. The deferred sales model for add-on insurance requires a clear four-day pause between when a client enters a commitment to acquire a principal product or service, and when they are offered or sold an add-on insurance product ('deferral period'). The deferral period will enable and encourage clients to consider the merits of the insurance offered and to consult alternative providers.

Exemptions to the reforms

The offer of insurance that relates to home and contents, home (building) insurance and landlord insurance (for residential investment purposes) is permitted under the legislation as these have received exemptions under the Corporation Act.

The offer of other insurances that deal with risk have not received specific exemptions under the Corporations Act and care must be taken to avoid breaching the obligation.

Generally, a life insurance product will not be an add-on insurance product, as it does not manage a financial risk relating to the principal product or service but instead insures the life of the client.

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However, CCI insurance is considered to be add-on insurance and is covered by the anti-hawking provisions and the deferred sales model. Note: Consumer credit insurance (CCI) products that include a life component are still regarded as add-on insurance and therefore need to abide by the anti-hawking provisions with respect to the cooling off period (4-day gap) between the provision of a PDS and the sale of CCI.

Mortgage brokers can talk in general terms about the risks of not having appropriate insurance. The conversation may highlight the types of insurance that a client might consider in order to maintain the loan repayments. This may include providing a PDS on life insurance, income protection insurance, total/permanent disability insurance and trauma insurance. At no stage should a mortgage broker engage in conversation about a specific insurance product and provide any advice on that product.

Unless you hold an AFS licence or have been appointed as an authorised representative of an AFS licensee, you must not provide advice about financial products. “advice” is a recommendation or a statement of opinion which is intended (or could reasonably be regarded as being intended) to influence a person in making a decision in relation to a financial product, e.g., purchasing insurance, endorsing a policy, increasing sums insured etc.

A number of tasks in relation to financial products are not categorised as “advice”. These include providing clients with factual information, disclosure documents or brochures prepared by an AFS licensee and even a quotation for the cost of a financial product.

You can provide these services without holding an AFS licence or being an authorised representative of an AFS licensee, but care must be taken to ensure that no advice is given.

The conversation on insurance options should be recorded and acknowledged by the client(s) and may look something like the following:

Personal insurance information

To ensure we have taken the appropriate duty of care when arranging finance on your behalf, we must make you aware of the option to protect yourself and your family from the possible financial hardship caused by personal trauma, sickness, disability or death.

If you do not have adequate risk insurance in place, you may not be able to make the repayments on your loan(s) if you had an accident or illness that stopped you working or in the event of permanent disability or death. It’s important that you understand the risks of not maintaining sufficient insurance to protect your loan and your assets.

Insurance Declaration

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- I / we acknowledge that the broker has brought this to our attention.
- I / we understand that insurance is not compulsory and is not a condition of the loan being approved.
- I / we have considered the risks and are satisfied with the current level of personal insurance protection or have made our own arrangements.
- OR
I / we have considered the risks and would like to discuss the insurance options with someone recommended by our broker.

General Conduct Obligations

Obligations under NCCP Act 2009 for Licensees

s47(1) determines (amongst other things) that a licensee must demonstrate they have adequate arrangements to:

- supervise and monitor the activities of any representatives and ensure that any breaches are identified and remedied; and
- ensure that any representatives are adequately trained, and are competent, to engage in the credit activities covered by the Australian Credit License; and
- have an internal dispute resolution procedure that complies with the standards and requirements made or approved by ASIC in accordance with the regulations and covers disputes in relation to credit activities.

ASIC Policy

ASIC Regulatory Guide 206 – Credit Licensing: Competence and Training ('RG 206') contains guidance on a licensee's compliance measures in relation to training, supervision, and organisational competence of an Australian Credit Licence. RG 206 states that the ACL must be able to demonstrate that they can comply with the obligations and have measures in place to ensure the licensee always maintains organisational competence.

To this end, MLB expect member licensees to have a program in place that allows them to assess their own license requirements and to assess the competency of the credit representatives.

Licensee and Representative Competence

MLB, in accordance with RG 206, understand that although ASIC have not set specific training and

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competence requirements for representatives, we have an obligation to:

- a) determine what is appropriate initial and ongoing training to ensure our compliance with the representative training obligation; and
- b) embed this in our recruitment and training systems.

MLB also understand that representatives who provide third-party home loan credit assistance must:

- a) Have at least a Certificate IV in Finance and Mortgage Broking; and
- b) Need to undertake at least 20 hours of CPD per year.

MLB also acknowledge and accept the guidelines of the industry bodies which may set higher expectations than what ASIC hold with respect to educations and ongoing competence/training requirements.

Initial Training Requirements

Credit representatives of MLB and ACL holders and their representatives are required to complete an induction program when onboarded within 60 days. The induction program consists of:

- Completion of an online training plan via MLBlearn
- Attending a virtual webinar

MLBlearn

MLB's training platform, MLBlearn, contains comprehensive courses, covering an extensive range of modules that includes broker compliance, industry, and regulatory obligations. A number of these courses form the induction training plan including:

- Anti-Money Laundering/Counter Terrorism Financing and Identity Verification
- Best Interest Duty
- Breach Reporting
- Complaints Handling
- Conflicts of Interest
- Disclosure Obligations
- Privacy
- Responsible Lending
- Training and File Audits
- Banking Code of Practice

At the completion of each course, brokers will be required to complete and pass a knowledge assessment.

Induction webinar

In addition to MLBlearn training plan completion, newly onboarded brokers will also attend a national induction webinar. The webinar covers the following:

- Introduction to MLB's people and key contacts

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- Compliance overview
- Chief and tools
- Key events

Continuing Education Requirements

To maintain their education, skills, and experience brokers must complete at least 20 hours of Continuing Professional Development training per annum, however, to meet Industry Body requirements, brokers are required to obtain a minimum of 30 hours for the MFAA or 25 hours for the FBAA. MLB understand that ASIC expect MLB to ensure that the training course(s) selected for brokers is one that is endorsed by their industry body.

Types of activities that may be recognised in ongoing training

The following activities may be counted towards CPD:

- a) attendance at relevant professional seminars or conferences;
- b) preparation time for presenting at relevant professional seminars or conferences;
- c) publication of journal articles relevant to the credit industry;
- d) viewing recordings of recent (within the last year) professional seminars or conferences;
- e) completion of online modules or tutorials on recent (within the last year) regulatory, technical or professional developments in the industry; and
- f) internal training on systems, procedures and policies relevant to the responsible manager's role (although activities in this category should not make up the majority of CPD hours).

MLB expects that brokers will attend at least 10 hours of ongoing professional development per annum that is hosted by MLB (and/or the brokers head group). This can include:

- State based Professional Development days
- National Professional Development days
- MLB hosted technology training
- MLB hosted compliance training
- MLB hosted product training
- Training courses available via MLBlearn

Brokers authorised as credit representatives of MLB are required at a minimum, to attend 50% of Professional Developments days and 1 MLB hosted compliance session per annum.

Ensure you review your relevant Industry Body website for acceptable activities and allocation of hours.

Record Keeping by Brokers

Each broker has the obligation to ensure the accuracy of the training register in respect of their training. Each broker will be responsible for submission of relevant training attended via the relevant portal as determined by the Compliance Team and the Compliance Committee.

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Each broker has an obligation to maintain a training file to ensure the accuracy of the training register. Broker's must retain and when, so needed, produce all receipts for attendance at conferences, seminars, courses, testing results and the content of the training undertaken outside of the MLB provided training. MLB will maintain records of attendance for all training sessions it provides to its brokers and courses completed via MLBlearn.

Mortgage brokers will be expected to submit, as requested periodically by MLB, a copy of their CPD record that demonstrated their current CPD hours. It is expected that the CPD hours align with the expectation of the industry body with regards to the type of training that has been attended and the maximum amount of hours that are dedicated to a particular training source.

Dispute Resolution

Obligations under section 47 NCCP Act 2009 for Licensees

Having adequate dispute resolution processes is a core obligation of all credit licensees (one of the 'general conduct' obligations).

The specific source of this obligation is section 47 of the National Consumer Credit Protection Act 2009 that sets out the general obligations of all credit licensees. Section 47(1)(h) says that all licensees must have an internal dispute resolution procedure that:

- Complies with standards and requirements made or approved by ASIC in accordance with the regulations; and
- Covers disputes in relation to the credit activities engaged in by the licensee or its representatives.

External dispute resolution membership is also mandated by section 47 of the Act.

Section 47(1)(i) says that all licensees must be a member of the AFCA scheme. Credit representatives must also hold their own AFCA membership.

Having robust IDR procedures and understanding them is critical for not only the licensee, but all representatives under that ACL who engage in credit activities. The credit laws provide very specific rules for handling complaints from consumers.

There are a few key components in the definition of a complaint. A complaint is:

- an expression of dissatisfaction
- made to or about an organisation
- related to its products, services, staff or the handling of a complaint
- where a response is explicitly or implicitly expected or legally required

Complaint Timeframes

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Once you receive a complaint, you have specific timeframes within which you must respond.

The key timeframes for mortgage brokers are:

- 24 hours (one business day) to acknowledge the complaint
- 5 days within which a complaint can be resolved and closed without much formality (i.e., you do not have to provide a written outcome)
- 30 days for all other complaints

Note: If the complaint relates to financial hardship, 21 days after receipt of the complaint.

It is possible to extend these timeframes by agreement with a complainant.

Authorised credit representative of MLB, must inform the Compliance Team if you receive a complaint so we can work with you throughout the complaints handling process.

Licensees (and their credit representatives) must inform MLB of complaints made, including those that relate to lender products so that MLB can meet design and distribution obligations (DDO) with our lender partners.

Dealing with and Resolving Complaints

All complaints (whether received verbally or in writing) should be referred to the complaints contact person who should:

1. Record the complaint in the Complaints Register; and
2. Acknowledge receipt of the complaint with the complainant; and
3. Investigate the complaint.

Resolving the complaint

The complaints contact person must investigate the complaint. This will involve (where necessary):

1. Giving all parties an opportunity to present their case (including the complainant and all relevant representatives and staff members); and
2. Clarify any factual issues with the complainant (this may be done either in writing or verbally in person or by telephone); and
3. Formulate a report to be included in the Complaints Register and provided to the licensee. This report should detail all relevant facts and information relating to the complaint and the steps taken to resolve the complaint including a negotiation strategy for resolving the complaint; and
4. Attempt to resolve the complaint (this may include an offer of compensation).

If the complainant is not satisfied with the response or offer to resolve the complaint or an agreement within the prescribed timeframe the complainant may refer the complaint to the Australian Financial Complaints Authority (AFCA).

Throughout the resolution process, the confidentiality of all persons must be maintained, and only senior management, compliance committee, and the compliance contact person should have access to confidential information.

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Complaints Reporting (Licensees)

From June 2023, licensees have been subject to reporting obligations with respect to complaints.

Internal dispute resolution information is to be provided to ASIC within one month after the end of each reporting period. Each reporting period is 6 months.

A licensee must provide certain IDR information to ASIC for each complaint made against the licensee or their representative(s) during the reporting period. Licensees must compile IDR information in a format prescribed by ASIC and upload it through ASIC's Regulatory Portal.

File Audits

Competence Assessments of Loan Files

MLB apply the file audit process equally to all accredited brokers, regardless of their ACR or ACL status to ensure consistency of file reviews and effective compliance monitoring of broker conduct and practices with their responsibilities and requirements. These audits assess up to 5 files for each mortgage broker. The file audit criteria are set by MLB and ensures that each loan is assessed against an acceptable standard.

The results of the audit are presented to the broker at the completion of the file audit. Any corrective actions that are to be addressed from the audit are handled by MLB in liaison with the mortgage broker.

The frequency of file audits ranges from 3, 6 and 12 monthly intervals which is also based on risk assessment from previous file audits. A broker will have a minimum of 5 files audited on each occasion (if 5 files are able to be accessed for assessment) or up to 10% of settled regulated files. Once a file audit is concluded, the results of the audit are shared with the broker. Brokers will receive a report that displays the file audit results and the corrective actions that need to be addressed for each file.

MLB will also review broker websites and referrer agreements/register periodically at the same time as the file audit is being conducted. Feedback and/or any amendments required will be communicated with the broker and/or agreement holder.

What is Assessed?

The audit criteria may change periodically based on legislative changes and industry expectations. A sample of what is assessed is as follows:

Privacy and consent

- Was the Privacy Consent provided to the client(s) before the collection of personal information and signed

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- Is there evidence the correct Credit Guide was provided to the client(s) prior to credit assistance
- Has consent been provided to obtain a CCR report on behalf of the client(s)
- If the clients provided their own CCR report, has a file note been completed to advise of this
- Have the Guarantors signed a Privacy Consent, provided identification and relevant information (if applicable)

Fact find

- Was a detailed description of client's requirements, objectives and an explanation why the clients wanted these requirements documented
- Is there evidence of enquiries into the client's personal and financial situation documented in a Fact Find/Client Needs Analysis and signed by the clients
- Have you enquired about any foreseeable changes (including retirement if applicable) which may affect the client's ability to make repayments without hardship
- Was the Quote (if applicable) clear, accurate and fee amount reasonable
- Was the Quote provided to the client prior to credit assistance and signed

Income, expenses and liabilities

- Is there evidence of enquiries into the client's current living expenses documented, verified and file notes of any mitigants/discussions held
- Has there been consideration of any new post settlement living expenses
- Is there evidence of enquiries into the client's income documented, verified and file notes of any mitigants/discussions held
- Is there evidence of enquiries into the client's current liabilities documented, verified and file notes of any mitigants/discussions held

Product selection and Best Interests Duty

- Have any Conflicts of Interest been identified, documented and prioritised in the client's favour if applicable
- Is there evidence the clients were provided with a minimum of 3 lender/product options. If not, has an explanation been provided
- Has an affordability assessment and lender servicing been completed
- Was the recommended lender/product (including fees and charges), comparable or better than the other lender/products compared. If not, has an explanation been provided
- Is there detailed commentary on how the lender/product options provided meet the client's requirements and objectives, personal and financial situation and are in their best interests
- Was the proposed refinance in the client's best interests (lower rate, improved cash flow, extension of remaining loan term). If not, has an explanation been provided
- Has the reason for interest only repayments (if applicable) been explained
- Are there detailed notes on how the recommended lender/product meets the client's requirements and objectives and is in their best interests
- Are there detailed notes where specific requirements (timing, client preferences/situation, loan amount, lender policy, property restrictions, etc) have driven selection of the recommended lender/product

Loan application

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- Is there evidence of the Preliminary Assessment and Credit Proposal disclosure on file, completed and signed same day or prior to submission to the lender
- Was the loan application lodged within 90 days from the date of the Preliminary Assessment and Credit Proposal document
- Were all Tax File Numbers (TFN's) permanently removed from all supporting documents
- Was the clients personal and financial information consistent with the affordability assessment/lender servicing calculator, lender application and Apply Online
- Was the recommended lender/product in the Preliminary Assessment and Credit Proposal document consistent with the lender application
- Are there a minimum 2 forms of clear and legible Identification documents held on file for each client
- Is there evidence of funds to complete the purchase and verification of the origin of the funds (gift, sale or asset, share portfolio) if applicable
- Are there any inconsistencies in the file which need to be documented
- Have any material changes post submission been documented correctly and confirmation held that the client is happy to proceed with the changes

Other

- Is there full disclosure of all commissions and referral information in the Preliminary Assessment and Credit Proposal document
- Is there evidence on file of invoice and receipt if a fee has been charged
- Is there evidence all client interactions, documents and file notes to support the application have been uploaded to Chief

Audit Preparation and Loading Supporting Documentation

It is the broker's responsibility to load the required documentation into the software to ensure files are complete and able to be audited in their entirety.

MLB require all supporting evidence to be loaded into each file (I.e. if a client has multiple loan applications, each application) in Chief for the purposes of future audits and for the purposes of maintaining a complete and accurate record of the verification that was required in meeting the Responsible Lending and Best Interests Duty obligations.

As per the MLB member agreement, all documents must be loaded into Chief within 30 days of loan settlement (but preferably sooner, as received). MLB also expect documents to be loaded to the client file for loans that are declined, withdrawn or not proceeding with. Repeated failures in loading documents into the system or repeated failures in the correction of file audit issues may result in formal warnings from MLB.

The supporting information requirements include:

Disclosure documentation and consents

- Credit Guide and Privacy Consent

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- Preliminary Assessment and Credit Proposal (this should include Client Needs Analysis)
- Insurance Disclosure
- Fact Find/data collection tool
- Credit Quote (if you charge a fee for service) and invoice

Identification

- Verified photographic ID
- Secondary ID sources
- Medicare card

Lender documentation/application

- Lenders application form/lenders consent/broker notes
- Lender's checklist
- Serviceability calculator
- Verification of Identity disclosures
- Apply Online submission summary
- Lender correspondence such as approval notification

Income sources

- Payslips
- Company tax returns
- Individual tax returns
- Notice of Assessment
- Payment Summary
- Accountants' declaration
- Any other employment evidence
- Rental income (if applicable)

Bank statements

- Saving statements
- Transaction account statements
- Loan statements (where applicable)
- Credit card statements
- Superannuation statements (if they were required as part of submission)

CCR (if applicable)

- Comprehensive credit report(s) detailing liabilities and the conduct of those liabilities

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Audit Process

Each question is ranked according to a set of available static responses. The responses to each question are based on a risk weighting.

The responses reflect the evidence that has been reviewed based on the information in the client file at the time of the audit. Where no information is available or where evidence is not available, the risk weighted response indicates that no evidence was found to support the question being raised.

At the conclusion of the audit an algorithm is run to determine the overall risk weighting of each loan file and combined files that form the audit. Critical components in the criteria have a higher impact on the overall risk weighting.

Corrective Actions

The results of the audit are provided to the broker. Any corrective actions that are required from the audit are handled by MLB liaising with the mortgage broker. MLB will follow up the broker with corrective actions to ensure they are remedied, rectified or explained.

Brokers are required to address corrective actions within 14 days of the file audit being completed. Brokers will receive an email that details the file audit results and the corrective actions that need to be addressed for each file.

Consequence Management

The following scenarios may result in actions being taken against the broker and/or agreement holder.

- A breach is identified under ASIC breach reporting protocols including fraud or negligence that has not been explained, rectified, or remedied with the broker.
- The broker is nonresponsive or has not requested closure of corrective actions by the due date.
- Repeat corrective actions in previous audits are evident and/or receive a high-risk outcome.
- Any other failure to meet the expectations of the Compliance Program or items of concern identified such as suspect fraud, misleading or misrepresented.

Where files are reviewed and there is evidence of misconduct or possible fraud, MLB will run a wider investigation to assess the broker's conduct.

In a situation where a broker is found to be non-compliant with MLB's expectations and has failed to address the corrective actions appropriately and in a timely manner, MLB may take action including the issuance of a formal warning/breach notice, training and supervision program, suspension or depending on the severity of the issue, termination.

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Accreditation Standards

As a determination of competency and capacity to be recognised as a broker, all brokers must hold and maintain accreditations with at least 10 lenders on our lender panel. We require that at least 3 of those lenders to be either ANZ, CBA, Macquarie, NAB or Westpac.

Brokers have obligations to:

- Hold accreditations with a wide variety of panel lenders with whom they are eligible to obtain accreditation with
- Once accreditations are obtained, do all things necessary to maintain those accreditations
- Abide by the accreditation standards that are set at the lender level
- Abide by the standards that MLB set in accordance with their lender agreements

MLB will consistently monitor accreditations held by brokers and in situations where a broker is unable to meet the minimum accreditation standards, it will be regarded as an inability to meet the minimum compliance obligations of MLB.

MLB Licensee General Obligations

MLB recommends Licensees adopt a formal Licensee Compliance Program (such as QED CompliFast) in order to review and track their requirements in meeting their ongoing ASIC obligations. Licensee must meet their general conduct obligations, broad conduct obligations and audit responsibilities.

Licensees are required to address all the general conduct obligations which allows them to confidently renew their Licence (the Annual Compliance Certificate that needs to be completed through the ASIC portal).

Licensees must provide MLB with their Compliance Certificate (CL50) on an annual basis to satisfy the requirement to hold a valid authorisation to conduct credit activities.

Marketing

Marketing is an important strategic component of any business because it is the main method by which you obtain your clients. There are many techniques suitable for marketing mortgage and finance assistance services. Some of the most common include:

- Advertising
- Referrals
- Direct marketing through publications and events such as newsletters and seminars, and through personal connection such as telemarketing and door to door sales.

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There are many legal requirements and restrictions on marketing activities, and you need to be aware of these to ensure that your marketing does not break the law.

Misleading and Deceptive Conduct

When marketing your business and providing services you must not mislead or deceive clients (or potential clients). Misleading someone may include:

- Lying to them
- Leading them to a wrong conclusion
- Creating a false impression
- Leaving out (or hiding) important information
- Making false or inaccurate claims

Many misleading advertisements are not calculated attempts to deceive; they are often caused by mismanagement, inadvertence, or naivety.

Advertising and marketing can be innovative, exciting and competitive; but it must also be honest, balanced and accurate. Following the guidelines in the next table will help you to do this. Seek legal signoff if in doubt.

“Independent” or “Impartial” or “Unbiased” advice	To use these words, the advice being given must be independent, impartial or unbiased and not influenced by factors other than the client’s best interests. If you receive commissions or other benefits from a lender, there is potential for you to be influenced by factors other than the client’s best interests. Do not use these words unless you and your licensee: Will not receive commissions from a lender. Do not receive any other gifts or benefits from lenders that could influence you. Are not restricted in the credit contracts and leases on which you provide services. Have no conflicts of interest arising from your associations or relationships with lenders that might influence you. Possible alternatives for a broker might be “professional” or “MFAA-accredited”.
“Financial counsellor” or “Financial counselling	Do not use these or any similar words when providing or offering to provide credit services.
Reverse mortgage	Only use this term in relation to true reverse mortgages (as defined in the NCCP Act), i.e. a credit contract (other than a bridging finance contract) and mortgage where: The client’s total liability may exceed the maximum amount of credit that may be provided under the contract due to interest, fees and charges; and

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	The client is not required to reduce the liability to below the maximum amount of credit.
The “best” deal	It is impossible in the large and competitive finance market to demonstrate that a deal is the “best” deal at any point of time, so avoid such terminology, and similar expressions like “cheapest” or “lowest rates”. Possible alternatives could be: “We help you find the most suitable loan for you from our panel of over <insert number> lenders”.
“Guaranteed”	This term should be avoided. Only use it if you intend to make a contractually binding promise. Ensure that you specify the precise terms of the promise. Do not use this term in the context of ‘guaranteed acceptance’.
“Free”	Only use this term if the product or service you are providing is really free. It will not be free if the client might incur other costs, such as an application or valuation fee, or if the client will give up other benefits.
“Subject to conditions”	Use of terms such as “subject to conditions” and similar phrases is unlikely to protect you from misleading your audience if the terms of the loan being promoted are less favourable than the advertising suggests. If an understanding of the terms and conditions is likely to change the perception of the product or service, you probably need to reconsider your advertising strategy. If an attractive offer is subject to conditions that are likely to be unattractive from the client’s perspective, present the conditions as prominently as the offer itself.
Subjective statements	Avoid subjective statements such as “We believe that interest rates will rise in the next three months” unless you hold the opinion in good faith, and you have a reasonable basis for it.
Comparative advertising	Comparative advertising is allowable, but it is essential that the claims being made about competitors’ products and services, as well as your own, are 100% accurate and that relevant information is not omitted. Ensure that you compare like with like. For instance, it is misleading to say that a line of credit or offset account product can be paid off more quickly than a standard product if this result can only be achieved by making larger or more frequent payments.

Interest rates and comparison rates

If an advertised interest rate is only for a honeymoon or other temporary period, then the advertisement must also state the period for which the discount applies.

This information must be just as prominent as the interest rate and must state the rate or fee that applies after the expiry of the interim period - although this need not be shown with equal prominence. More prominent disclosure may be required where there are any unusual features of the discount rate or

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period, such as if the rate at the expiry of the period is different to the lender's standard variable rate. Advertisements do not need to state the actual discounted rate, except where they emphasis savings without clarifying the savings will not continue after the discount period.

Comparison rates help clients to understand the true cost of a loan. They provide the interest rate, fees and charges for a loan, reduced to a single percentage figure. For this reason, if an interest rate is advertised, a comparison rate must be included in the advertisement.

The comparison rate must reflect the total cost of credit arising from interest and other specified fees and charges.

If you prepare an advertisement of this type, follow these rules:

- If the advertisement states, the amount of any repayment, show the annual percentage rate and the comparison rate.
- If credit charges and fees are also payable, either say that charges and fees are payable, or specify the amount (or a combination of both).

Interest rates

Provide a nominal percentage rate per annum or the comparison rate calculated in accordance with the statutory formula (whether or not any repayment amount is included).

Comparison rate

This must be for whichever of the following most closely represents the typical amount of credit and term initially provided for that product.

\$10,000 – 3 years

\$30,000 – 5 years

\$25,000 – 25 years

It must be calculated in accordance with a standard formula that takes into account the amount and term of the loan, repayment frequency, interest rate and fees and charges (other than stamp duty, registration fees and conditional or unascertainable charges). State that it is a comparison rate and show it as prominently as the advertised interest rate and the amount of repayments.

A comparison rate will be less prominent if it is smaller or shown in a faded colour as compared to the interest rate, it is in a location that is easy to overlook or is not in close proximity to the interest rate or, for online advertisements, requires the client to click through or take some other action.

The comparison rate warning must:

- Clearly state the name of the product; and
- Warn that the comparison rate is only accurate for the example given. The warning must be given in the same manner as the comparison rate. i.e., if the comparison rate is disclosed verbally, so

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must the warning. It may be acceptable to include the warning on a separate page where the comparison rate is disclosed in an online banner, provided there is a clear link or reference to the warning, and this is positioned as close to the interest rate as possible.

Stationery and Documentation

When is the ACL/CR Number Required on Documentation

Brokers must show their credit licence number on all disclosure documents i.e. the Credit Guide/Privacy Consent, Quote, Preliminary Assessment and Credit Proposal. When referring to your credit licence for the first time in a document, make sure to use the full term 'Australian Credit Licence' and not the abbreviated 'ACL'.

Credit representatives need only show their credit representative number in their Credit Guide; however, the licensee details must also be included.

Again, do not use the abbreviation 'CR'; use 'Credit Representative Number'.

Generating disclosure documents from Chief will automatically populate the licensee and credit representative details that are detailed within your settings.

Use of ABN/ACN on Documents

Every company in Australia is issued with an Australian Company Number (ACN) once it is registered by ASIC. The ACN is a unique, nine-digit number that identifies the company and must be set out on all its public documents.

Where is the ACN required to appear?

The ACN must appear on the following types of documents:

- All documents required to be lodged with ASIC
- Statements of account, including invoices
- Receipts (which are not machine produced)
- Orders for goods and services
- Business letterheads (and, by inference, business emails)
- Official company notices
- Cheques, promissory notes and bills of exchange
- Written advertisements making a specific offer which is capable of being accepted (such as by the completion of an order form) and although not technically a document, if your company has a common seal, its name and ACN (or ABN) must be set out in a seal

The ACN is not required on the following documents

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- Packaging and labelling, including envelopes
- Advertisements which do not make a specific offer which is capable of being accepted (such as advertisements promoting the company and its goods or services in general)
- Machine generated receipts
- Business cards and 'with compliments' slips
- Items which are not documents (e.g. vehicles, television advertisements)

Where must the ACN be located?

The ACN must appear immediately after the first mention of the company's full name. Companies may use the words "Australian Company Number", or an abbreviation, such as "ACN" or "A.C.N." For example:

"Company XYZ Pty Ltd ACN 123 456 789"

"Company XYZ Pty Ltd A.C.N. 123 456 789"

"Company XYZ Pty Ltd Australian Company Number 123 456 789"

The company name and ACN must be set out in full on all the documents in which it is required to appear. For documents that are longer than a page, the company name and ACN must be shown on the first page. It does not matter where it is on the first page. After the first page, the company name may appear elsewhere, with or without the ACN, and either in full or in an abbreviated form.

Can the ABN be used instead of the ACN?

If a company has an Australian Business Number (ABN), it may use the ABN instead of the ACN, provided the ABN includes the nine-digit ACN. In other words, if the last nine digits of the ABN are identical to all nine digits of your ACN, the ABN can be used.

It is not necessary to show both the ACN and ABN if this is the case. However, if the last nine-digits of a company's ABN are different from the ACN, it must use its ACN.

Referrers

Dealing with referrers has been a long-established practice with mortgage brokers as a mechanism to assist in lead generation. Mortgage brokers have traditionally created referral arrangements with financial planners, real estate agents, accountants, builders and solicitors.

However, there are numerous other business-related models where relationships can be established to procure leads and referrals. There are also numerous individuals who mortgage brokers may utilise to generate referrals within their circle of influence.

These referral relationships are usually transacted without any issues. However, there are risks involved in establishing a relationship with a referral partner. Mortgage brokers must exercise care in the selection of referral partners. While existing clients may be an excellent source of individual referrals, history has demonstrated that there are a number of individuals who will seek to establish

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relationships with mortgage brokers when they are no longer able to conduct credit activities in their own right.

Mortgage brokers must conduct their own research and background checks with potential referrers that they have not previously been banned, ceased, or disqualified from any previous business under adverse circumstances (this includes lender terminations and aggregator terminations). Examples of other checks a broker should perform on a prospective referrer are:

- Web search. This will often identify service-related client reviews and public record legal/court matters
- Social media sites
- ASIC banned and disqualified; and professional registers
- Information about the business. How long has the referrer been in business? What is their business/value proposition and does it align with the brokers
- Meet in person and at their business premises

This will prevent the potential for individuals to continue profiting from an industry where they are no longer fit to practice.

In all instances where a referral arrangement is established, a referral agreement must be formalised between both parties.

What Regulations Capture Referrers

Referrers are captured under the Act as they are seen to be acting as intermediaries.

Section 9 of the Act states that a person acts as an intermediary if, in the course of, as part of, or incidentally to, a business carried on in this jurisdiction by the person or another person, the person:

- a) acts as an intermediary (whether directly or indirectly) between a credit provider and a consumer wholly or partly for the purposes of securing a provision of credit for the consumer under a credit contract for the consumer with the credit provider; or
- b) acts as an intermediary (whether directly or indirectly) between a lessor and a consumer wholly or partly for the purposes of securing a consumer lease for the consumer with the lessor.

It does not matter whether the person does so on the person's own behalf or on behalf of another person.

Although it may be unlikely that the referrer is providing credit assistance, due to the nature of the intermediary definition they may be conducting a credit activity and therefore, referrers need to satisfy exemption criteria so that they do not need to be licensed or authorised as a credit representative.

Categories of Referrers

- individual referrers;
- business related referrers who **do not** provide client contact details to lenders/brokers;

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- business related referrers who provide client contact details to lenders/brokers; and
- website referrers.

Does Remuneration make a difference with Referrers?

Irrespective of whether referrers are going to be remunerated or not, a referral agreement is to still be initiated. This is to ensure that referrers can be declared as meeting the fit and proper test for the purpose of making referrals.

Referrer Responsibilities

Business related referrers who do not provide client contact details to brokers

These referrals are exempted by reg 25(2). The exemption applies if the following conditions are satisfied. The referrer must:

1. Inform the client that the broker can provide services and provide no other credit assistance;
2. Give the client the broker's contact details; and
3. At the same time and in the same format as the contact details were provided, disclose to the client any benefits or commissions the referrer may receive.

If the referrer gives the client access to a website to contact the broker, reg 25(3) imposes the same conditions as reg 25(2) applies.

Business related referrers who provide client contact details to brokers

These referrals are exempted by regs 9AB and 25(4). A referrer may provide the contact details of the client to a broker provided that the following conditions are satisfied.

1. The activity engaged in by the referrer consists **only** of the referrer informing the client that the broker is able to provide the service; and providing the broker with the client's name, contact details and a short description of the purpose for which the client may want the credit;
2. The referrer is not banned from engaging in credit activities;
3. The referrer discloses to the client any benefits that may be received by the referrer, including commission;
4. The referrer does not charge the client a fee;
5. The client has consented to the referrer giving their name to the broker;
6. The referrer must give the information to the broker within five business days after informing the client that the broker is able to provide the service;
7. The referrer must not conduct business by contacting people face to face from non-standard

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business premises (e.g., a stall in a shopping mall or similar temporary set-up); and

8. The referrer does not make the referral incidental to a business that is principally making contact with persons for the purposes of giving their names or details to other persons (i.e., not a call centre). This means call centres conducting marketing activities may need to be licensed or appointed as a credit representative.

It is unacceptable for referrers, who are unlicensed to engage in credit activities to send sensitive information and documents in support of loan applications. This type of practice is also referred to as “Introducer Programs”. Brokers must make their own enquiries and obtain all verification documents directly from the client. Occasionally, third parties such as accountants, may provide brokers with supporting documents (financials). The client must consent to this and review the documentation to ensure the accuracy of information.

Broker Responsibilities

Brokers must:

- Have an agreement with the referrer which specifies the conduct in which the referrer can engage
- Keep a register of referrers including the date and the means by which the agreement with the referrer was entered into and the date of commencement of the referrals
- Contact the client within 10 business days of receiving the referral
- Inform the client that they have obtained the client's contact details from the referrer
- Explain the financial benefits, if any, the referrer may receive for the referral. Brokers must also disclose any fees or benefits to the client in the credit proposal disclosure
- Specifically ask the client whether they are happy to continue with the conversation

MLB reserves the right to request copies of referrer agreements and referrer registers maintained by brokers for review if/when required.

MLB Paid Referrers

If there are any referral arrangements where MLB has agreed to pay referrers on the brokers behalf, this must be approved by MLB. In those situations where a referrer is to be accepted as part of a paid commission structure, MLB will conduct its own due diligence on the referrer.

Unacceptable Referral Arrangements

Referral selling

Section 49 of the Australian Consumer Law (which is a schedule to the Competition and Consumer Act) states:

A person must not, in trade or commerce, induce a consumer to acquire goods or services by representing that the consumer will, after the contract for the acquisition of the goods or services is made, receive a rebate, commission or other benefit in return for:

- (a) giving the person the names of prospective clients; or

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(b) otherwise assisting the person to supply goods or services to other consumers; if receipt of the rebate, commission or other benefit is contingent on an event occurring after that contract is made.

Brokers cannot entice or induce prospective clients to refer other prospective clients by promising a reward or payment on the basis that they refer other clients to take up the brokers services.

Brokers may, however, offer a reward to a client for referring others to the broker once the client has used the services of the broker (i.e. the broker has provided credit assistance, and the loan has settled with the lender). In this case, the client has already obtained the brokers services and so the reward is not an inducement for the client to use the broker.

Property spruikers

Property spruikers are property investment promoters who often mislead investors with inaccurate information about quick and easy wealth creation through property investment. They often use high pressure tactics to rush people into decisions, signing contracts, paying fees or investing in property developments that may result in financial losses.

Administrators/Broker Support Staff

Administrator responsibilities

People that engage in credit activities require a credit licence or an authorisation from a licensee. A person cannot engage in credit activity if the person does not hold an ACL or is appointed as a credit representative under an ACL. Only authorised parties can undertake credit activity/credit assistance. NCCP Act 2009 prohibits unauthorised credit activity which can lead to civil and criminal penalties.

If administrators or support staff work in your business, ensure they have defined parameters in place with regards to their responsibilities.

Administrators must not take on a role they are not authorised to do. If they are communicating directly with clients, they cannot issue guidance that could be perceived as credit assistance when addressing queries.

NOTE: The lodgement of the loan to a lender is a credit activity and this practice should be managed/checked by the broker prior to submission. The broker is always responsible for all actions performed by the administrator.

Administrators who require access to MLB and lender systems must first be approved by MLB. MLB will conduct its own due diligence on the administrator.

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IT Security

With an ever-increasing risk of cyber security incidents across all sectors including finance and continued focus on ensuring client data is protected, it is important for mortgage broking businesses to ensure they and their personnel have measure in-place to protect data and prevent cyber-attacks and data breaches.

MLB recommend the adoption of the following IT security measures:

Antivirus

- Antivirus is installed on all computers including laptops
- Antivirus is configured to update regularly and has “real time” scanning

Hardware Firewall

- Network is protected from the internet Firewall
- Device administration password is changed upon installation
- Direct port forwards are not configured
- Virtual Private Network (VPN) is used if remote access is required

Software Firewall

- The built in software Firewall is enabled on all computers including laptops

Patching – Operating Systems and Applications

- Windows – Patches are configured to automatically download and install
- Mac – Install updates when available
- Upgrade to a new operating system version when available
- All software is kept up to date
- Applications auto updates are enabled

Backups

- Copies of important business data/information is backed up

Laptops

- Has an access password that is regularly updated
- Hard Drive encryption is enabled

Physical Security

- Do not allow unauthorised persons to have access or use of business computers

Wireless

- Device administrative password changed upon installation
- Wireless uses WIFI Protected Access 2 (WPA-2) minimum security
- Has a strong password
- Will not access business related systems on public WIFI

Passwords

- Use strong unique passwords as long and complex as can be remembered
- Passwords should not be recorded on the device being connected from e.g., username and

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password should not be saved on a shared device or stored in a notepad file on the computer desktop

- Passwords can be stored in a password manager that is secured by Multi Factor Authentication, or preferably simply remembered
- Use multi factor authentication where available
- Never share passwords with anyone

Multi Factor Authentication

- Multi Factor Authentication is required for remote access to the MLB Network. Where a shared device is used for Multi Factor Tokens, such as Microsoft Authenticator App or Duo App, the device is protected by a PIN and physically secured

Data and Data Breach

- Advise MLB if an actual or suspected data breach occurs