MLB Specific Product / Loan Commentary Guidelines

This guide will assist with considering the types of information which should be included for specific product / transaction types in your Client Needs Analysis / Fact Find under Needs and Objectives and Preliminary Assessment and Credit Proposal document.

Interest Only Loans

Additional interest is payable over the life of a loan as the principal is not paid down during the interest-only period. A loan with an interest-only period must demonstrate it meets client(s) requirements and objectives.

You should 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
- Repayments required to pay out the loan will increase after the interest-only period ends to cover both interest and principal payments
- The client(s) are 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)
- Client servicing of principal and interest repayments is evident 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 maximise additional funds for investment purposes
- Principal reduction in an offset facility
- Other (with detailed explanation)

Lines of Credit

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 or may not meet the clients' requirements and objectives.

As a result, you should record the following additional information for lines of credit:

- Potential costs and benefits – file notes confirming that you have explained the potential interest 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, client servicing must be calculated over the remaining amortised term of the loan
- Exit strategy – when and how does the client intend to repay the balance of the loan

Fixed Interest Rate Products

Fixed rate products can be restrictive and have the potential of additional fees / costs (e.g. if a loan is terminated prior to the end of the fixed interest period such as break costs or if additional repayments are made). Fixed interest rate products may not meet the client's requirements and objectives.

You should record the following additional information for fixed interest products:

- Commentary 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 (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

Offset Accounts

Products with offset accounts can have the potential of additional fees / higher interest rates. The offset account requires a higher balance maintained in order to achieve reduced loan interest being calculated. Offset products may not meet the client's requirements and objectives.

You should record the following additional information for offset products:

- Commentary confirming that you have explained that a higher balance in the transaction account will reduce the amount of interest payable and that a lower balance may have a negligible effect on interest payable
- The offset account will not affect the loan repayment amount

Refinance / 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 should 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 (if applicable)
- Information about any additional costs and whether LMI will be payable
- An explanation of the additional repayment and interest costs associated with refinancing over a longer loan term (if applicable)
- Confirmation and explanation of the reasons why the client(s) still want to proceed with the refinance / switch (including which requirement / objective has priority)

- 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

Debt Consolidation Loans

Consolidating short term debts (e.g. credit cards and car / personal loans) into a longer-term credit product will mean 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 should record the following additional information for an application that includes debt consolidation:

- Reasons for the debt consolidation and an explanation of how the client will benefit
- Notes confirming you have advised the client of the additional interest which may be payable if the short-term debts were paid off over the entire term of the debt consolidation loan