

# Self Employed Loan Commentary Guide

## Branch and Authorised Representative Use Only

Members have access to loan notes under Freedom of Information and Privacy laws; therefore, you must be mindful of what is written and ensure all commentary is free of defamatory material and pertaining only to the Member. Do not record information about other Members or individuals. Do not record opinions, record facts only. Do not record information pertaining to other financial institutions' policies or approaches, only record information that is directly relevant to the specific loan application at hand.

Loan notes are mandatory and must be included for every loan proposal. This template outlines the minimum requirements which will accompany all loan proposals. All headers within the template must be completed and will vary in detail depending on the type of facility, loan amount requested and complexity of the proposal. Mandatory headers include, but are not limited to:

- Loan Purpose
- Policy Exception
- Funding
- Character and History
- Capacity
- Collateral
- Capital
- Conditions
- Summary and Recommendations

Additionally, notes must include details of communications with the Member/s, a summary of discussions held and outline any further action that is required.

Recommended content which should be included within each mandatory header are detailed below:

### Loan Purpose

- Outline Members request and needs, including purpose of the transaction.
- Consider and include details on how the purpose is validated.
- Briefly capture product details and lending amount, ensuring the chosen product is fit for the purpose.
- Outline the total exposure of all associated borrowers which includes:
  - The total of all existing lending with Queensland Country Bank for all borrowers, including facilities which Members are Guarantors, plus the new requested lending amount. Where revolving credit facilities are held the facility limit must be included, not the amount outstanding.
  - The total security value including mortgage security, GSA, FTD etc.
  - The total unsecured value.
  - LVR position

Examples of total exposure:

- *Total Exposure \$320,000.00 / Secured PPR \$ 600,000.00 / Unsecured \$20,000.00 / Combined LVR 53.3%*
- *OR HL \$300,000.00 / Secured PPR \$600,000.00 / LVR 50%*
- *OR PL \$20,000.00 / unsecured \$20,000.00)*

- Where a facility is being refinanced (either internally or from another Financial Institution), detail the refinance cost benefit/financial benefit of the move.
  - Outline the conversation held and in instances where there is no financial benefit then the Member/s motivation for move must be captured and considered satisfactory to proceed.

### Policy Exception

#### Only include if applicable

- Capture Policy Exception
  - Outline the policy item being requested for exception approval (policy name/reference number) i.e., Branch Lending Policy 0300 – OFI Statements/Income Calculation/Serviceability etc.
  - The mitigant related to the reason for request must be included following the exception request (should there be more than one exception request ensure mitigants exist for each request).

### Funding

- Breakdown of funding
  - Include deposit contribution, grants, payment timing, payment type Housing Australia Deposits where all savings are not contributed, loan notes must include the surplus savings position following determined deposit requirements (\$), the proposed use of the retained funds (it is necessary to add detail), and appropriate justification for the retained funds requested to be held.
  - Ensure Member/s have sufficient capital to complete
  - Outline any fees, included costs, approved waivers etc.

## Business Character and History

### Business Analysis / Industry Analysis:

- Business Structure (corporate Tree) – type of structure and entities involved, comments of understanding of Business flow/structure, who is involved, shareholders, directors, trustee, beneficiaries, other parties and entities.
- Industry Strengths and Weaknesses – comments required
- Members Management Experience (Business Acumen) - years in business and industry
- History of directorships – comments on reasons for changes in directorships
- Business life cycle – stage of business
- ATO History (include ATO Portal) Tax history

## Members Character and History

### Includes Credit History

- Outline Credit Bureau Report information including recent enquiries, directorships, possible matches etc.
- Company Credit Search must be completed for all entities which the borrower is a Director, and investigations must be completed accordingly.
- Financial position including asset and liability position
- Account conduct (both lending and transactional)
- Employment type, tenure, and employer details including employment history and any relevant qualifications.
- Residential history
- Member's requirements and objectives identified and captured
- Ability to service determined i.e., strong, comfortable, marginal etc.
- Requested LVR % considered acceptable if Lenders Mortgage Insurance requested ensure proposal is within QBE policy
- Additional information should be captured at this stage if relevant such as:
  - Members first loan
  - Member near retirement age
  - Future plans which may knowingly impact financial position/budget/ability to repay such as maternity leave, extended leave etc.
  - Contingency plans
- Debt Insurance conversation held, and outcome of Members decision clearly noted (Refer MLC Guide for further information).

## Capacity

### Members Living Expense Analysis and Exit Strategy

- Servicing position including LMI serviceability assessment results if applicable
  - Key serviceability ratios (NIS, DSR, DTI) must be included, within policy and suitable.
- Outline income calculation
  - Confirm income type adopted e.g., base income and YTD calculation to confirm.
  - Outline overtime and/or allowances, within policy.

Include any deductions such as HECS, HELP etc. and how these have been calculated from payslip.

- Members living expenses must be captured and verified
  - Do Members estimation appear realistic i.e., ensure the account transaction history align to the estimated values.
  - Considered any dependants and their ages.
  - Outline the source documents you have used to validate income and expenses such as tax statements, school fee payments, childcare payments etc.
- Confirm overall servicing position is considered acceptable for this Member, particularly where serviceability ratios are marginal
  - Consider how you have determined/understanding of Members financial position.
  - Where there is a period of income not being received at full pay or Nil pay (Maternity/Paternity leave) a record of a timeline evidencing how this commitment will be met through this period is required to be noted on the application.
- Does an Exit Strategy need to be considered? Refer Branch Lending Policy
  - Will the loan term exceed planned retirement age? If so, an acceptable exit strategy must be provided by the Members sufficient to mitigate any concerns of ongoing ability to repay, and which do not place Member in financial hardship as a result.
  - Remember- As a lender you cannot assume an exit strategy as each individuals' plans are different. The exit plan/debt repayment strategy must be discussed, and details must be provided by the Member/s which is then to be documented in notes.
  - Sale of property or downsizing is not considered an acceptable exit strategy in isolation.
  - Points to consider when documenting an Exit Strategy:

- Members current assets and liability position, including Superannuation balances.
- What are Member's retirement plans? Consider Members line of work to ensure the timeframe is considered appropriate based on employment type/duties etc.
- Is Member planning to pay the remaining loan balance in full with Superannuation at retirement? What is the expected loan balance at planned retirement, and will this leave a sufficient and comfortable Superannuation balance to live off during retirement?
- Is Member planning to continue the repayments via Superannuation Income Account (allocated pension) into retirement? If so, what is the expected loan balance at that point and are the loan repayments achievable with Superannuation Income Account payments without placing Member in financial stress?
  - o Please ensure the exit strategy is acceptable (refer Credit Department if in doubt).

## Business Capacity Analysis

Assessing lending capacity:

- Sole traders, partnerships and contractors
  - o Mandatory self-employed tab in the loan affordability calculator (LAC) to be completed
  - o Mandatory in depth serviceability calculator (IDSA) to be completed for all company and trust entities for all applications exceeding \$500K
  - o Commentary must be added in regard to inputs and assessment methods of all self-employed income
- List of supporting financial documents obtained and verification method
- Summarise Financial figures
- Financial Analysis – Business income and profit & loss commentary
- Balance Sheet – summary and add comments for any add backs adopted . Refer to Policy 0300 for acceptable add backs
- Current Ratio - Current Assets divided by Current Liabilities
- Overdraft Fluctuation – Highs and Low points and commentary regarding use
- Business Liabilities – all business liabilities to be loaded in Symtrix
- Director loan comments – add information if applicable
- Any material variances between financial periods must be investigated and explanation provided

PROFIT & LOSS	Current FY	Previous FY
Sales		
Gross Profit		
Exp		
NPBT		
Addbacks		
Interest		
Depreciation		
<b>TOTAL</b>		

BALANCE SHEET (A-L=P)	Current FY	Previous FY
Current Asset		
Non-Current Asset		
<b>(A) Total Assets</b>		
Current Liabilities		
Non-Current Liabilities		
<b>(L) Total Liabilities</b>		
<b>(P) Equity (Proprietors position)</b>		

## Business Capital Analysis

Commentary to be provided for:

- Ensure that the business assets are not relied on for an exit strategy
- Cash at Bank
- Security – Owners' Equity
- Current Assets Vs Non-Current Assets
- Ownership percentage
- Liquidity – how quickly can assets be converted to cash

## Collateral

- Capture the details of the collateral offered
  - Mortgage Security: Address, lot and plan must match the title search. Good practice is to outline whether the collateral is in a metro, regional or national location. The property location will determine the maximum LVR acceptable, refer LVR location guide.
  - Goods Security Agreement (GSA): Vehicle type, age, and sale type (dealer/private/Members own).
  - Other: Deposit Security Agreement (DSA) where FTD funds are offered, Guarantors etc.
- Property valuation details:
  - Refer Branch Lending Policy 0300 to ensure security is considered acceptable and within set perimeters.
  - Valuer name, value and date valuation completed.
  - If construction or reno loan, cross reference build contract/quotes to ensure 'As If Complete' value is accurate per schedule of works.
  - Risk ratings – Add applicable comments, remember any risk ratings 4 or over must be outlined and referred to Credit Department for assessment.
  - Property type and land zoning
  - Property size and land size
  - Selling period, must not exceed six months
  - Outline essential repairs, and consider in assessment of suitability
  - Outline and address any adverse comments by valuer
  - Ensure the property presents as suitable security, if in doubt refer Credit Department
  - Confirm LVR within policy and acceptable
- Personal property valuation details:
  - Value and valuation method i.e., dealer invoice, Red Book etc.
- Add any other relevant information such as insurance etc.

## Capital

- Provide summary of capital contribution, and verification method.
- Genuine savings:
  - Are all funds genuine savings?
  - If partial, then outline the breakup of funds i.e., \$10k genuine and \$5k gifted
  - Confirm savings have been held in account in Member's name for at least a three-month period
  - Ability to repay should be evident to support Member's capacity and ability to meet the requested loan repayment. Consider, does savings history support proposed personal or home loan repayment amount? does rental payment history support proposed home loan repayment? Verify by account and/or rental statements.

## Conditions

- Clearly outline the approval conditions which are required to be satisfied prior to formal approval.
  - These can include further information requests, satisfactory formal valuations, COS, acceptable vehicle etc.
- Have you considered what documentary conditions may be required to control the release of loan funds? E.g., Does the Member have existing liabilities being paid out and closed using the new loan proceeds?

## Summary and Recommendations

- Provide recommendation i.e., recommended for approval, recommended for decline
- Overall summary of proposal.
- Supporting commentary provided.
- Risks outlined and mitigated.
- Loan suitability determined – ensure loan is acceptable. Borrower profile and the requested loan amount and purpose must be considered appropriate.

## REMINDERS

- As the Lender you are submitting the proposal for approval on behalf of our Member/s.
- Ensure your conversations with Members and subsequent loan notes are robust and informative- remember your notes should be easily understood by anyone and at any point in time.
- Credit Analysts and DLA holders complete loan assessments based on the information you provide, do your notes make sense? Have you missed anything? Are you awaiting further information or documentation?
- Do you consider your proposal a good credit risk to Queensland Country Bank? Have you considered and mitigated any concerns, why are we lending to this Member?
- What other factors do you need to consider about the proposal? Remember no two proposals will be the same, as such no two lending submissions will be the same.
- In order to avoid delays and a poor Member experience – First Time Right! Have you presented a completed and accurate proposal?
- Does this proposal make Sense? Take the time to review your lending applications, if you are still developing or unsure then you may like to ask a peer to review your proposal before submitting.