



**GET  
THE RELATIONSHIP  
EDGE**

**BIG HELP GUIDE**

**The Broker Interview Guide's companion**

**ADVANTEDGE** 

# HOW TO USE THE BIG HELP GUIDE

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- The *BIG Help Guide* is designed to be used as a companion to the *Broker Interview Guide*.
- Every section in this guide has a corresponding section in the *Broker Interview Guide*; containing a series of questions you should ask the applicant as you fill out the *Broker Interview Guide*.
- The questions are designed to deep-dive the applicant's current, medium and long-term goals; ensuring the answers you record in the *Broker Interview Guide* are complete, comprehensive and result in the recommendation of a product or solution that is *not unsuitable* for them.
- Please note: The *Broker Interview Guide*, and this guide, should be used for NCCP-regulated lending only. A completed *Broker Interview Guide* must accompany every new application and loan variation for a residential home or investment loan application.
- Please Note – The questions in this guide are suggestions only to assist in capturing a customer's need and circumstances. They are not an exhaustive or mandated list.

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# QUESTIONS TO CONSIDER

## 1. APPLICANT DECLARED PURPOSE

Purpose	Questions to consider
Purchase a property	<ul style="list-style-type: none"> <li>• Are they buying another property before selling an existing property?</li> <li>• Will this property be their primary residence or an investment?</li> <li>• What is the primary purpose of this purchase? Is it a first home, holiday home, down-sizing opportunity?</li> </ul>
Construction	<ul style="list-style-type: none"> <li>• Will the applicant rent until the house is built?</li> <li>• Reasons for the construction? Upsizing, etc.</li> <li>• Are the construction plans council-approved?</li> <li>• When does construction start and how long will it take to build?</li> </ul>
Renovations	<ul style="list-style-type: none"> <li>• Will the applicant rent, or remain in the existing property while the renovations take place?</li> <li>• Why are they renovating? Upsizing, etc.</li> <li>•</li> </ul>
Investment purposes	<ul style="list-style-type: none"> <li>• Is it for an investment property and/or managed funds, shares, etc?</li> <li>• What are their plans for the investment? I.e. Long term investment or use it as security for a margin loan?</li> <li>• If it's an investment property, will the rental income be a future source of income?</li> </ul>

# QUESTIONS TO CONSIDER

## 1.APPLICANT DECLARED PURPOSE CONT...

Purpose	Questions to consider
Purchase a motor vehicle, boat, trailer, etc.	<ul style="list-style-type: none"><li>• Are they purchasing a motor vehicle, boat or trailer using the equity in their property?</li><li>• Is it going to generate an income for the applicant?</li></ul>
Refinance (usually away from other financial institution/s – OFI)	<ul style="list-style-type: none"><li>• Refer to slides - 2.Refinance &amp; Debt Consolidation</li></ul>
Debt consolidation	<ul style="list-style-type: none"><li>• Refer to slides - 2.Refinance &amp; Debt Consolidation</li></ul>

# QUESTIONS TO CONSIDER

## 2.REFINANCE & DEBT CONSOLIDATION

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- If the applicant is refinancing or consolidating debts with the proceeds of the proposed loan, consider using the following questions to guide the conversation.
- You should be able to demonstrate that a refinance will result in overall cost savings, or there is some other benefit that ensures that the new loan will better meet the applicant's requirements and objectives and is likely to outweigh any loss of benefits.
- If this is not the case, you should recommend that the credit being sought is unsuitable.
- When considering if there are overall cost savings, you should also take into account all the circumstances, including the cost of credit replacement, all associated fees and charges.

### Questions to consider

- Why is the applicant wanting to refinance or consolidate their debt?
  - Is it for a better rate or to take advantage of a campaign offering?
  - Is it to withdraw equity for a different purpose?
  - Or, are they unhappy with the service of their current financial institution?
- What Other Financial Institution (OFI) is the applicant currently with?
- What is the structure of the existing OFI loan, product type, interest rate and ongoing fees?
- What are the early repayment costs, break costs, loan approval fee, discharge of mortgage, etc?
- Refer to next page for more questions to consider...

# QUESTIONS TO CONSIDER

## 2.REFINANCE & DEBT CONSOLIDATION CONT...

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### Questions to consider

- Has the applicant obtained a payout quote from the OFI?
- If they have this available, specify the loan amount.
- If not available, the applicant should be encouraged to obtain quotes on costs to refinance and ensure they understand that these may be considerable and may change significantly.
- What other products could be affected by the refinance? E.g. credit cards, overdraft facilities, personal, transaction accounts, etc.
- Do they understand that their home loan debt will increase with increases to their scheduled home loan repayments?
- Do they understand that their unsecured debt (credit cards, personal loan, overdraft, etc) will turn into secured debt?
- Do they understand the interest rates, fees & charges that will be incurred or payable as soon as the debt is consolidated?
- Other Purpose/s:
  - There could be a number of reasons, other than the ones mentioned in this section, for the applicant/s to request a loan.
  - You should clearly understand this purpose and document it in the Broker Interview Guide and in the application. This will help you determine whether credit provided is not unsuitable.
  - An applicant may want to buy a car, for example, and in some cases a car loan or personal loan might be more suitable than topping-up their existing home loan.

# QUESTIONS TO CONSIDER

## 3. POSSIBLE ADVERSE CHANGES TO FINANCIAL SITUATION

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- If the applicant answers 'yes' to any of the questions below, it will also be necessary to document their plans to meet their loan repayments during periods of reduced income. I.e. They may plan to sell an asset, use their savings, rely on investment income, etc.
- If there is a *foreseeable change* in the near future, be sure to provide enough detail to describe what is going to change. The most common reasons or options are included in the BIG, which also outlines the period or the duration of which the applicant remains impacted (and the associated financial impact).

Potential scenarios	Questions to consider
Employment and income changes	<ul style="list-style-type: none"><li>• Is the applicant approaching retirement?</li><li>• Are they considering moving from/to permanent, part time or casual employment?</li><li>• Are they considering taking a career break?</li></ul>
Family circumstances	<ul style="list-style-type: none"><li>• Are they planning to start a family and/or take parental leave?</li><li>• Are they planning an extended holiday?</li><li>• Are they a primary carer and/or have any other regular medical expenses?</li></ul>
Medium to longer-term significant expenditures	<ul style="list-style-type: none"><li>• Private school fees?</li><li>• Property renovation/s?</li></ul>



# QUESTIONS TO CONSIDER

## 3. POSSIBLE ADVERSE CHANGES TO FINANCIAL SITUATION CONT...

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- Please ensure that you provide detailed descriptions to support the applicant/s responses. The following are considered **satisfactory responses**:
  - *Applicant/s number of work hours will be reduced, as he/she is going back to Uni.*
  - *A lump sum payment is use in a few month's time for a car lease.*
  - *Applicant is on redeployment, with employment to conclude in the next three months.*
- The following are considered **unsatisfactory responses**, as they do not provide enough detail on the extent of the change and how it will impact the loan repayments:
  - *Parental leave*
  - *Reduction in income*
  - *Job loss*
- If the applicant/s turns 70-years-old during the proposed term, it's important to document their repayment plans or exit strategy.
- There are options in the BIG that will help you identify how an applicant plans to meet their repayments during the period of financial impact. Please select the option that applies to the individual applicant/s scenario and document as much detail as you can about the applicant/s plan.
- If there isn't a suitable option, please complete in the '**other**' section with an appropriate description.

# QUESTIONS TO CONSIDER

## 4. LOAN FEATURES

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- Having an in-depth understanding of the applicant's needs and objectives will ensure you recommend a product or solution that is *not unsuitable* for them.

### Questions to consider

- What are the applicant's preferences for:
  - Product Type – Variable, Fixed, Line of Credit, Bridging, Construction
  - Loan structure – Term or multiple loan splits
  - Repayment preferences – Principal and interest, etc.
  - Packages and associated products – Transaction accounts, offset account, credit card, etc.
- Why are the products and features important to the applicant?
  - Easier to manage their weekly budget
  - Saving for a rainy day
  - Flexibility to pay down the debt in preparation for future family, etc plans
  - Pay off the debt as soon as possible to create equity to purchase an investment property.

# QUESTIONS TO CONSIDER

## 4.1 LOAN FEATURES – RATE TYPE

- Applicant preferences for flexibility, certainty - or a bit of both - will guide the selection of a fixed, variable or fixed & variable solution. Please ensure the applicant/s are familiar with the risks for each option, as outlined below.

### Risks associated with each Rate Type

- **Fixed Rate:**
  - Rate is fixed at a point in time and applicant(s) will not benefit from the subsequent market interest rate reductions during fixed rate period.
  - Rate may change between the time of approval and the time of drawdown if rate lock has not been obtained.
  - Applicants will have limited or no ability to make additional repayments while the interest rate is fixed.
  - Applicants may not be able to redraw or use an offset account to reduce interest.
  - Possibility of an expensive break/economic cost, if applicant/s terminate the fixed rate period.
- **Variable Rate:**
  - Interest rate and repayments amount may increase while the loan is on a variable rate.
- **Variable/Fixed Rate:**
  - Applicant/s will not obtain the full benefit of rate decreases and will still have some exposure to the risk of rate increases.
  - Applicant/s will generally not be able to change the ratio of the fixed and variable rate portions.
  - Applicant/s will be required to make separate repayments for each portion.
  - Refer to Fixed Rate section above for additional risks associated with fixed rate loans.

# QUESTIONS TO CONSIDER

## 4.1 LOAN FEATURES – RATE TYPE CONT...

- Line of credit provides the flexibility of paying interest only on the utilised amount from the approved limit. Please ensure the applicant/s are familiar with the risks for each option, as outlined below.

### Risks associated with each Rate Type

- **Line of Credit:**
  - Higher interest rates may apply to a line of credit when compared to a Fixed and Variable loan.
  - Not paying off principal may result in more interest being paid over the loan term.
  - Usually no formal repayment structure exists for the facility and so financial discipline is required to repay the loan.
  - The facility can be reduced or cancelled due to applicant/s not meeting the repayment obligations. This then required applicant/s to pay off the amount owing at any time and would need a plan for doing so.

# QUESTIONS TO CONSIDER

## 4.2 REPAYMENT TYPE

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- Please ensure the applicant/s are familiar with the risks for each option, as outlined below.

### Risks associated with each Repayment Type

#### ▪ **Principle & Interest:**

- Repayments cover loan principal and interest, so the loan is repaid in full by the end of the loan term.
- Applicant/s could pay less interest over the life of the loan when compared to a loan that features a period of interest only repayments.
- Interest rates on principal and interest repayments are generally lower than interest only.
- Repayments are to be made as agreed by us on a weekly, fortnightly or monthly basis.

#### ▪ **Interest Only:**

- Repayments cover only interest, which results in applicant/s paying more interest over the loan term.
- Interest only payments will not reduce the loan principal.
- Higher interest rates may apply to interest only loans.
- At the end of the Interest Only period, principal & interest repayments will be required and this will be higher than they would have been if the loan had principal & interest repayments throughout the loan term.
- The amount of the equity that is built-up in the property securing the loan will be less with an interest only loan.

#### ▪ **Interest in Advance:**

- A lump sum of interest needs to be paid at the start of the loan and on the loan anniversary.
- Rate must be fixed and all the risks outlined for Fixed Rate loans are applicable. Please ensure applicant/s understands this.

# QUESTIONS TO CONSIDER

## 4.3 PRODUCT TYPE & 4.4 CONFLICTS BETWEEN LOAN FEATURES

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### 4.3 Product Type

- **Offset Account:**
  - Feature is not available while the loan is on a fixed rate.
  - Interest is not payable on the savings account when the offset arrangement applies.
- **Redraw:**
  - Redraw increases the loan balances which results in paying more interest and may increase the schedule repayments.

### 4.4 Conflicts between loan features

A conflict arises when a nominated rate type does not have a corresponding repayment or product type available.

- Below are some of the examples of loan feature conflicts:
  - A variable rate is selected with Interest in Advance repayment type.
  - A fixed rate is selected with an offset account product type.
- Please ensure that the applicant/s understand the product loan feature limitations.
- To help resolve the conflict, please help applicant/s identify loan feature priorities or what's most important to them. Once this is done, list those priorities and the reason/s for those priorities in the Broker Interview Guide.
- Where a product conflict exists, please ensure you provide a full explanation of why that conflict exists.