**EXAMPLES OF BEST INTERESTS DUTY WORDING FOR GAME PLAN**

Under ‘Best Interests Duty’ you are not only required to recommend a lender and loan product which is ‘not unsuitable’, you’re also required to recommend the option which is in the best interest of the applicant. The notes you leave in MyCRM (which carry through to the Game Plan) will need to be detailed and cover off several aspects of how you arrived at the lender and loan product you are going to recommend.

Below are examples of notes you might leave, regardless of the structure of these notes you must ensure that the following points are being covered…

* Why has the lender/loan product been chosen?
* What is the loan purpose?
* How does the chosen lender/loan product fit with the applicant’s short/long term goals?
* Has an explanation been provided if the proposed loan term is greater than the existing loan term (refinance only)
* Has an explanation been provided as to how the applicant will repay the loan balance/make regular loan repayments upon retirement?

Loan Purpose – list all purposes for which the finance is sought and the amount for the purpose, for example…

 1. Refinance existing owner-occupied home loan - $257,500

 2. Retain accumulated redraw amount - $15,000

 3. Consolidate and repay personal credit facilities - $26,000

 4. Home repairs and maintenance - $20,000

Client’s circumstances, goals and priorities in seeking finance…

Owner-occupied property purchase

Mark and Cathy are seeking to purchase their first owner-occupied home, which will become their residence for the foreseeable future. They have identified a desirable detached 3-bedroom house at Mortgageville, NSW that they wish to purchase and a holding deposit of $1000 has been paid. Contract price is $645,000. Their accumulated savings and access to government incentives means they require a loan of approximately 90% of the property’s value. Both are in long-term, regular employment and do not have extensive existing debt. They wish to reduce their home loan debt as quickly as possible but also obtain some protection against potential future interest rate increases. To assist with their cash flow, the maximum available loan term is desired. Aside from access to excess repayments made if needed, they have no particular loan requirements.

Investment property purchase – use of equity

Mark and Cathy are seeking to purchase their first investment property by using the equity that they have accumulated in their owner-occupied property. Current value of their home is approximately $850,000 and the existing loan balance of $367,600 provides an available equity of $313,000 based on extending borrowings to a maximum of 80% of the property’s value to avoid incurring any Lender’s Mortgage Insurance costs. By using this equity, they will not need to contribute any further of their funds to the transaction. They are hoping to purchase a 2-bedroom unit in the Sandy Beach, Qld area, which they will rent out to tenants under a lease agreement. Such properties in this area typically provide a rental return of around $400 per week and this figure has been used for serviceability assessment purposes. They also hope to obtain sustained, long-term capital growth, as the area selected is predicted to become increasingly desirable as a residential location in future years. Acting under their financial planner’s advice, they wish to maximise the taxation benefits provided by negative gearing, hence seek to structure the investment property loan as interest only for as long as possible, as well as obtain interest rate certainty for budgeting purposes. They intend to continue to reduce their owner-occupied debt as quickly as possible. Both are in long-term, regular employment and do not have extensive existing secondary debt.

Refinance – owner-occupied

Mark and Cathy are keen to obtain a more competitive interest rate on their existing owner-occupied home loan, which is currently with Bigger Bank at 3.75% p.a., so as to reduce their interest costs and enable them to repay the debt as quickly as possible. The loan has been in place for nearly three years, however Mark and Cathy have requested that the term be extended back to 30 years to enable them to reduce their repayment commitment as much as possible should they need to do so, as there is a possibility that they may start a family within the next 12-18 months. The applicants are also aware that they may pay extra interest over the longer term as opposed to the current remaining loan term.

While they are able, they will repay the loan at above the minimum required amount. They have accumulated about $17,000 in redraw, which they wish to retain, if possible. They also wish to consolidate an outstanding personal loan (ANZ - $6350) and a credit card (Coles Mastercard - $8400: to be cancelled) into the home loan; they are aware that this may result in actually paying more interest on these debts over a longer term, however their immediate priority is to improve their cash flow and retire most secondary debt. They also wish to obtain access to lender cash backs if available. Both are in long-term, regular employment and all existing loans have been repaid to date without blemish. They wish to reduce their home loan debt as quickly as possible but retain the access to possible lower interest rates should they fall further. They like the idea of an offset account to further reduce their interest costs while providing immediate access to funds.

Renovations and refinance – owner-occupied

Mark and Cathy wish to add a second story and a pool to their current owner-occupied property to accommodate their family needs (3 children of school age). Total work cost will be $145,000 and plans have been council approved. The improvements will add significant value to the home, which is in a desirable area of Melbourne that has experienced annual value increases averaging 12% in each of the last three years. Mark and Cathy are open to refinancing their current loan ($278,000) if this is financially beneficial, but are also comfortable in staying with Bank of Melbourne if a lower interest rate can be negotiated (currently at 3.25% p.a. variable). Main income source is Mark’s excavation business, which has experienced rapid growth during the past year, however tax returns for 2019-2020 have yet to be submitted and also will not reflect the revenue generated in the 9 months since. For these reasons, an application prepared on an alt-doc (low-doc) basis is required.

Self-employed owner-occupied purchase

Mark and Cathy are seeking to purchase their first owner-occupied home which will become their residence for the foreseeable future. They have identified a desirable detached 3-bedroom house at Mortgageville, NSW that they wish to purchase and a holding deposit of $1000 has been paid. Contract price is $645,000. Their accumulated savings and access to government incentives means they require a loan of approximately 90% of the property’s value. They wish to reduce their home loan debt as quickly as possible but also obtain some protection against potential future interest rate increases. To assist with their cash flow, the maximum available loan term is desired. Aside from access to excess repayments made if needed, they have no particular loan requirements. The main income source is the family business, which operates as a company. Mark and Cathy are both sole directors and draw director’s fees of $40,000 per annum. These are insufficient to evidence serviceability for the loan sought, so reliance on the company profits is required (net profit $234,250 for 2019-2020). Analysis of the company balance sheet shows bank account funds of $160,000 available to allocate towards servicing personal debts if Mark and Cathy wish to do so.

First time borrowers

Mark and Cathy’s demonstrated savings history show they have the capacity to set aside funds from their employment income on a regular basis. During discussions with them, it was evident that they understood the financial commitment that having a long-term home loan debt imposes and the need to ensure that they budget effectively to meet the required repayments. Not having obtained a home loan previously, they were not aware of the various loan structuring options available, so I explained to them in detail the differences between variable and fixed interest rates, principal and interest and interest only loans, how offset and redraw operate, how a split loan facility works and the advantages/costs of a loan package. They demonstrated full and clear understanding of these aspects, thereby enabling them to identify their loan product requirements.

Add (if relevant) As the borrowing level required requires lender’s mortgage insurance (LMI) to be taken, I confirmed that Mark and Cathy understood the purpose of LMI, the fact that it protects the lender and not them, that they pay the premium and that the premium can be added to the loan amount.

Existing home loan borrowers

Mark and Cathy have operated their current home loans for approximately 4 years and have consistently met their repayment obligations. Their existing facilities have created a strong awareness of the various loan features available and having had a fixed rate loan that recently rolled into variable rate, they understand the pros and cons of fixed rate borrowing.

Experienced investors

Mark and Cathy are experienced property investors and borrowers, currently maintaining a portfolio of four investment properties that are all tenanted. Their professional backgrounds and previous borrowing activities has resulted in them having a very detailed understanding of the property market and debt structuring for maximum benefit. I would classify them as sophisticated borrowers.

Foreseeable material changes

Cathy is currently expecting her second child and is due in June. She intends to take the full 12 months maternity leave available from her employer and resume full time work at the end of the leave (confirmed by employer). Consequently, her salary will not be available during that 12 months. To enable Mark and Cathy to meet their home loan repayment commitments, their confirmed accumulated savings of $53,600 will be available to supplement funds available from Mark’s salary.

**RECOMMENDED SCENARIO OVERVIEW**

Cheapest loan overall

The three products noted represent the three most competitively priced loan products available from the MoneyQuest Lender Panel for which Mark and Cathy meet lender approval criteria and which meet all confirmed borrowing objectives and requirements. As the lowest priced product of the three calculated over the term of the loan, SuperBank’s Debt Buster loan is recommended as being in Mark and Cathy’s best interests.

Cheapest loan – short term

The three products noted represent the three most competitively priced loan products for which Mark and Cathy meet lender approval criteria and which meet all confirmed borrowing objectives and requirements. As the lowest priced product of the three over the clients’ desired 3-year fixed rate period, SuperBank’s Fixed Rate loan is recommended as being in Mark and Cathy’s best interests.

Sole lender option available

Based on Mark and Cathy’s current financial position and their confirmed borrowing objectives and requirements, they qualify with only one lender from the MoneyQuest Lender Panel, ABC Bank. That lender’s product that most closely aligns with Mark and Cathy’s borrowing objectives and requirements has been recommended.

Turnaround times

A key lender requirement for Mark and Cathy is the capacity to provide loan approval prior to 31 March, which is the expiry date of the finance clause in the contract of sale for the property they wish to buy. Consequently, all lenders with application turnaround times in excess of 6 business days were not considered as options. Of those that could meet the required date, ABC Bank is currently at 3 business days, DEF Bank 4 business days, XYZ Bank 5 business days. As the timeframe is a prime concern for the clients, ABC Bank is been recommended, given its HomePlus product meets all other requirements and objectives.

Cashback availability

While ABC Bank has a lower priced product, Mark and Cathy have prioritised the availability of a settlement cashback as a priority requirement. As DEF Bank’s current cashback offer is $5000, compared to ABC’s $4000, DEF’s Super Saver loan is recommended, as it satisfies all other objectives and requirements.

**INTEREST RATE**

Variable rate

The applicable interest rate for the recommended product is currently the lowest variable rate available for the products that meet Mark and Cathy’s objectives and requirements, from the MoneyQuest Lender Panel. The rate is subject to change.

Fixed rate

The applicable interest rate for the recommended product is currently the lowest 3-year fixed rate available for the products that meet Mark and Cathy’s objectives and requirements, from the MoneyQuest Lender Panel. The rate is subject to change prior to settlement of the loan, unless a rate lock option is taken.

Package option

The applicable interest rate for the recommended product includes a 0.15% p.a. discount, available under ABC Bank’s Gold Star Package, which also includes a fee-free transaction (offset) account, fee-free credit card with a pre-approved $6000 credit limit and discounted home and contents insurance. The annual package fee is $395. As these benefits exceed the fee amount, the Package is recommended for Mark and Cathy.

**LOAN AMOUNT**

The loan amount noted has been calculated so as to permit Mark and Cathy to meet their borrowing objectives, incorporating all purpose costs, applicable fees and charges and allowing for the agreed amount of their contribution to the transaction.

**LOAN STRUCTURE (inc. features)**

The proposed loan structure is recommended on the basis that it will allow Mark and Cathy’s borrowing objectives and requirements to be met in the most cost-effective way, taking all priorities and relevant factors into consideration.

The proposed loan structure is recommended on the basis that it will allow Mark and Cathy’s borrowing objectives and requirements to be met in the most cost-effective way, taking all priorities and relevant factors into consideration. Their original requirement of an offset account is not met by the recommended product, however after discussion it was agreed that the interest rate differential of 0.25% p.a. (compared to the product that allowed offset) was preferential, as their likely average offset account balance would not be substantial.

**GOALS AND OBJECTIVES**

All stated borrowing goals and objectives are met by the recommended product.

The maximum available loan amount, based on the valuation of the security property, does not allow Mark and Cathy to consolidate all personal debts into the proposed new home loan. They have acknowledged this and wish to proceed with the refinance and consolidation, with the exception of the CBA personal loan ($10,470).