Best Practice Interview Questions for Good Customer Outcomes

A Mortgage Broker's Guide

connective

Purpose and Background

Understanding your client's needs and objectives is a key component of your responsible lending obligations under NCCP. These obligations specify that you make reasonable enquiries into your customer's requirements to ensure the proposed loan is not unsuitable.

Definition of a Good Customer Outcome:

"The customer has obtained a loan which is appropriate (in terms of size and structure), is affordable, applied for in a compliant manner and meets the customers set of objectives at the time of seeking the loan."

Ask your customer to complete the Needs Analysis, then use these Best Practice Interview Questions to conduct your interview on each section. These questions are closely aligned to the Needs Analysis. They have been designed to help you obtain the information you need and prompt further enquiries and discussions with your customer when necessary.

Please note: It is a mandatory requirement that you document the responses provided by the customer for each section, as evidence of undertaking your responsible lending obligations.

Combined with your Preliminary Assessment and the lender choices provided to the customer, this guide will also help you to provide justification for the solution offered to the customer and the final choice of lender.

Contents

Needs Analysis Section 1:

Reasons the customer is applying for credit

It is important to understand the purpose of the loan. The immediate question to think about is how the loan sits with the customer's broader goals and objectives.

Consider the following:

- What are the customer's immediate, medium and long-term goals?
- For what purpose do they intend to use the funds?
- What options / flexibility might they need to cater for changes in the future?

It's important to find out why the customer is applying for credit, so you can ensure your solution is 'not unsuitable'.

Loan Purpose

Under each loan purpose type, we have provided key questions for discussion with the customer. If the customer selects 'multiple purposes' as the reason for borrowing (i.e. refinance and cash out) then you should consider the questions under all applicable topics.

New Purchase

- Are they buying a property before selling another property?
- Will this property be the primary residence or is it for investment purposes?
- Why do they want to make this purchase? For example, will this be their first home, are they upsizing / downsizing from their current home, buying a holiday home, or are they starting / adding to their investment property portfolio?
- What kind of property are they purchasing? Is it an established property, multi-dwelling, off the plan, or vacant land?

Refinance from an 'other financial institution' (OFI)

- What has prompted the customer to refinance and what are the benefits to the customer?
- What OFI is the client with currently?

- What is the structure of the existing OFI loan? What is the product type, interest rate and ongoing fees?
- What are the overall OFI refinancing costs? Is there an early repayment cost, break costs, loan approval fee, discharge of mortgage fee, or any other fee involved?
- Are there any other products that may be impacted due to the loan being refinanced? For example, will the refinance result in the closure of a Home Loan Package? Will it affect the customer's credit cards, overdraft facilities, personal or transaction accounts?

To ensure your information is accurate it is important to document whether the customer has obtained a payout quote from the OFI.

- If they have the payout quote available, then please specify the loan amount.
- If they do not have the payout quote available, you must recommend that the customer obtain one and document this conversation. You must also ensure the customer understands that the payout costs may be considerable and may change or vary according to the lender. Document this conversation too.

Debt consolidation

- What debts are being refinanced?
- How long is the duration of those debts?
- Have those debts been maintained with payments up to date and on time?
- Is the customer aware that while the interest rate on a home loan will be significantly lower, refinancing their home loan to consolidate their debts may increase the interest they need to pay?
- Are there any other options which would better suit the customer instead of a refinance? For example, a personal loan to consolidate short term debt?
- Have you discussed the pros and cons of debt consolidation? Please ensure you document your conversation on this topic carefully.

Internal refinance

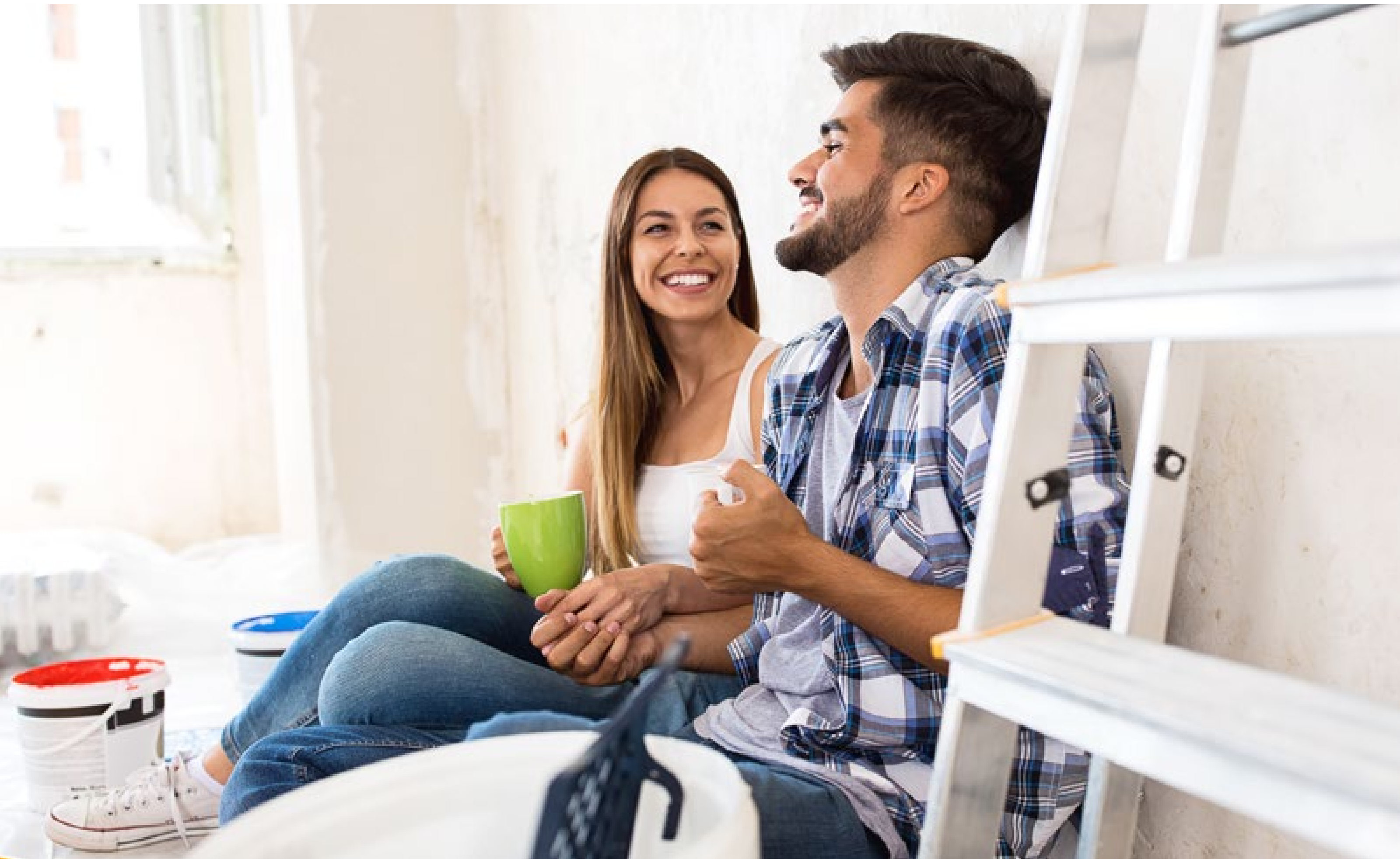
- What is the purpose of this refinance? For example, change of loan structure — principle and interest to interest only? (P&I to IO)
- Will there be any change to the Property Title details? For example, is this a marital separation?
- Will the refinance be dollar for dollar or with an increase?
- If there is an increase in loan amount, what will the additional funds be used for?
- Are there any linked accounts to the loan which will be impacted?
- Will there be any additional costs such as Lender's Mortgage Insurance (LMI) or break fees which need to be discussed?

Renovations

- Will the customer rent, move into a different premise or remain in their existing property while the renovation occurs?
- Will this property be the primary residence of the customer?
- Explain the reasoning for the renovations. Are they preparing the property to be rented, upsizing due to family, getting the property ready to sell?
- Detail the scope of the renovations. Are they renovations of the kitchen, an extension to include new bedrooms, an additional bathroom, re-wiring or new plumbing? Are the renovations structural?
- What plans have been made to pursue the renovations?
- How long before the renovations begin and how long will the process take?
- If the renovations are non-structural, please provide details of the scope of the project. What will the renovations include—kitchen, bathroom, flooring—what else?

Construction

- Will the customer rent, move into different premises, or remain in their existing property while the construction occurs?
- Will this property be the primary residence of the customer?
- Explain the reasoning for the construction. Are they preparing a property to be rented, upsizing due to family, getting the property ready to sell?



- What plans have they made to pursue the construction?
- How long before the construction begins and how long will the build take?

Top Up Loan / Cash Out

- What are the additional funds being used for?
- If the funds will be used as a deposit for another property, can the customer service both debts?
- If being used for renovations, refer to the questions under the renovations section.
- Is the customer going to be borrowing money for a career break or other break?
- Is evidence required / held to confirm the need of the cash out?

Investment purposes

A loan for 'investment purposes' may be a property investment however, it can also include other investment types such as managed funds or shares. If the purpose of the loan is to purchase an investment property, how does this fit in with the customer's broader investment strategy? To determine this, you will need to ask the following questions:

- How long is the customer planning to hold the property?
- Will the rental income be a future source of income?

If the customer plans to invest in other ways, such as shares or managed funds, then we expect this intention to be carefully documented. Key questions to be asked and documented should cover the following:

- Whether or not the funds for the shares / managed funds to be purchased will be used as a security for a margin loan.
- Is there any evidence of the cost of the shares / managed funds to confirm the need of the funds?

Type of security being offered and the Certificate of Title

- What type of property is the customer offering as security for the lender?
- Are there any restrictions around the type of security which the customer needs to be aware of, like policy or LVR restrictions?
- Are they high density or other post code restricted properties?
- Are they small sized apartments such as studio apartments or student accommodation?
- Are they regional properties?
- Are they Company Share, or Purple Title properties?
- Who will be on the Certificate of Title for the property? If the loan is a refinance, it is important to ask if there are any borrowers who are being added or removed from the Certificate of Title.

Type of Borrower

Don't forget to confirm and document the type of customer you are dealing with, as this may lead to additional questions or a discussion about stamp duty or other concessions. For example:

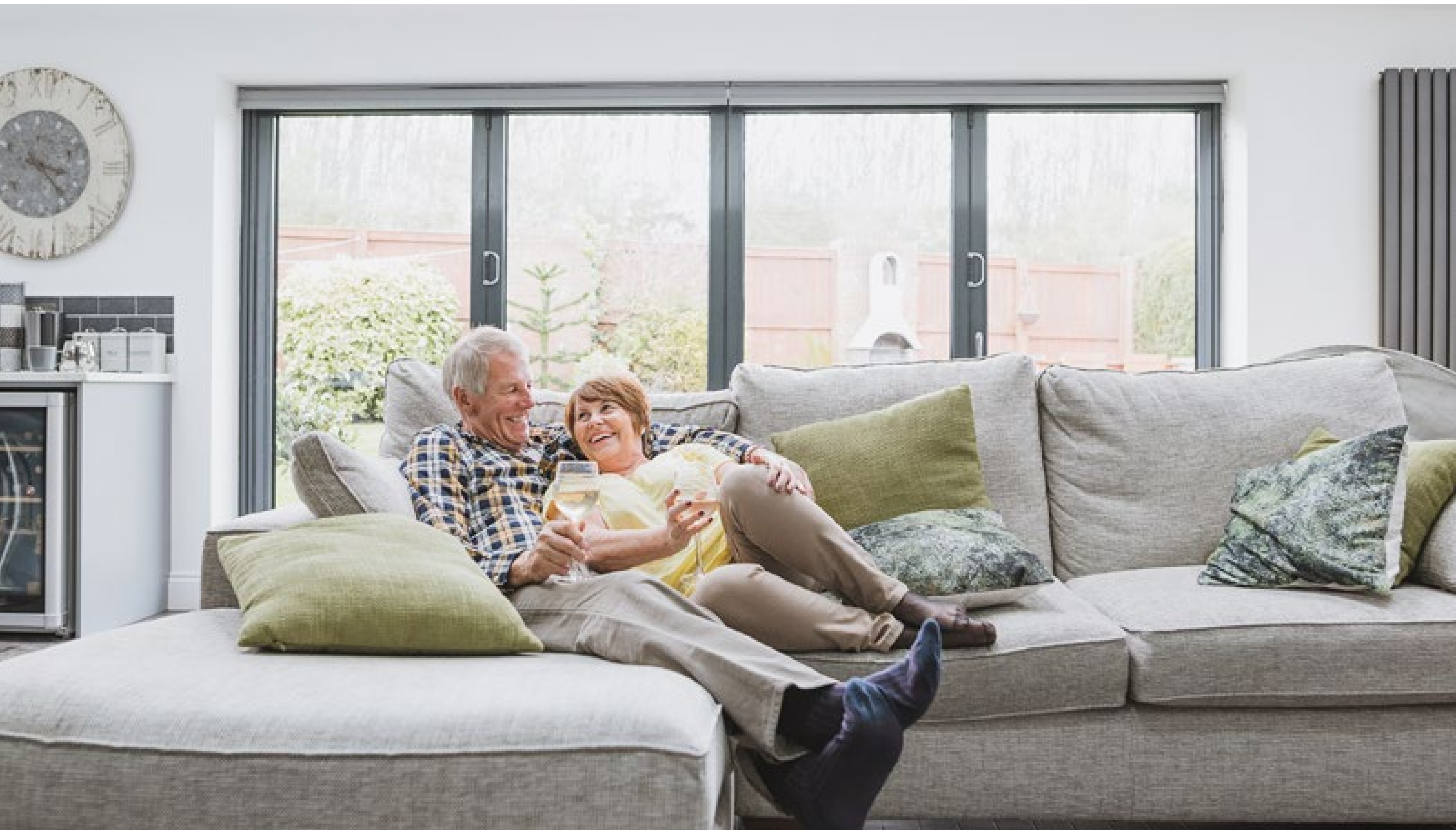
- Are they a first home buyer and could they be eligible for the First Home Owners Grant?
- Are they eligible for any discounts or concessions on stamp duty?
- Are they an overseas investor and if so, what government fees and charges will apply?

Retirees

If your customer is borrowing into retirement age, you will need to ask them questions about their plans to exit the loan and ensure you document them carefully. Questions you need to ask include:

If your customer is a retiree, you will need to determine their exit strategy for the loan.

- What age is the customer expecting to retire?
- Will the anticipated loan term exceed the customers retirement age?
- If so, how does the customer intend to repay the loan? Are they planning to sell and downsize, accelerate their loan repayments, or use superannuation?
- Is the exit strategy feasible? For example, does the customer have enough superannuation and what verification has taken place?



Needs Analysis Section 2:

The customer's credit history

Understanding the customer's current financial situation and taking steps to verify it are key requirements of your responsible lending obligations. This is not simply asking the customer questions about income and existing debts.

Determining how the customer has managed their existing liabilities is an important element for lenders. It can influence the choice of lenders available to the customer and you should always be able to provide information to the lenders to mitigate credit risk.

It is important for you to be able to justify how the customer will be in a better financial position from the intended loan.

Payment Defaults

Discovering whether the customer has existing defaults, judgements or legal proceedings against them is important, as this can impact the lenders you propose to the customer. If any of the applicants answered 'yes' to this question in the Needs Analysis, consider the following questions.

- What was the event which occurred to trigger this?
- How long ago did this occur?
- Who was the provider who listed the default?
- How much is the default listed for?
- Is the amount now paid or is it still outstanding?

If the customer has answered 'no' to the question regarding their existing credit commitments being up to date, please ask the following questions:

- What commitment has not been maintained? Is it a housing loan, personal loan, car loan, credit card, store card, council rates or some other kind of debt?
- What is the amount overdue or in arrears?
- When was the customer last up to date?
- Has the customer applied for substantial hardship with the financier?

- What was the cause — loss of employment, over-commitment, relationship breakdown?
- Has the customer expressed an intention of bringing this up to date and what is their strategy to do so?

Alt-Doc Loans

If the customer needs to seek an alternative documentation loan, you must also discuss and document the following:

- Is the customer self-employed and how is the customer in the same line of work?
- Do they demonstrate an understanding of the industry they are working in?
- What is the status of the customer's financials?
- Does the customer have BAS statements and business account bank statements which will support their stated income?
- Who is the customer's accountant and how long have they been servicing this customer?

Needs Analysis Section 3:

The customer's risk profile

Understanding how the customer feels about rising interest rates and job security should inform your discussions about the type of solution and products you propose to them.

Interest rate concerns

If the customer has expressed concern about rising interest rates, then please discuss the following and document your conversation:

- Fixed rate loans.
- Split loans.
- Rate lock.
- Features and benefits of the above.
- Restrictions on the above.

Job security concerns

If the customer has expressed concern about their job security, please ask the following questions and document your conversation:

- Does the concern come from the type of industry? For example, is the work seasonal?
- Does the concern come from the type of employment? For example, is the work casual, a limited period contract, or are they self-employed?

A good customer outcome is obtained by ensuring the loan is appropriate in terms of size, structure, affordability and risk profile. It must also meet the customer's needs and objectives.

- Has the customer's employer announced planned redundancies?
- Does the customer's employer have a mandatory involuntary employment fund?
- What is the customer's level of savings and could this support them if they became unemployed?

Asking these questions helps you to build a long-term relationship with your client as well as meet your responsible lending obligations.

Needs Analysis Sections 4 & 5:

The customer's lender selection and loan features

Based upon the customer's answers in the Needs Analysis, please ask the following questions to ensure the lenders, loans and product features discussed are 'not unsuitable'.

Lender selection

You will need to discuss the lenders that you intend to propose to the customer. It is important to carefully discuss the difference between each lender and their offers. At the end of this discussion, please ask the following questions:

- Does the customer have any preference for one lender over another?
- Why does the customer prefer this lender? Is it because they offer repayment holidays, a honeymoon period, or some other benefit?
- Does this preference contradict their responses in the Needs Analysis? If so, please discuss this with the customer and document the conversation.

Product type and loan features

You will need to discuss the loan solutions that you intend to propose to the customer. This will require a discussion of the product type and loan features to discover what is most important to the customer. As part of this discussion, please ask the following questions:

- Does the customer have any preference for a type of loan? For example, variable, fixed, line of credit, bridging loan or construction loan.
- Why do they have this preference?
- How does the customer want the loan to be structured? For example, what loan term do they prefer, and do they require multiple loan splits?

An important part of your role is ensuring your customer's preferences align with their needs and objectives.

- What are their repayment preferences? Will the loan be principle and interest (P&I), investment only (OI), interest-in-advance?
- What packages and associated products will they require? For example, a transaction account, offset account, redraw facilities, credit card?
- Will the customer need to take out Lender's Mortgage Insurance (LMI)?

Loan term preferences

When you hold a discussion with the customer about the loan term, it is important to discuss every aspect of the loan term considering the customer's current and future circumstances and loan purpose. Here are two examples.

Example 1:
If refinancing a loan from an 'other financial institution' (OFI) where they had a 30-year loan and are now 10 years into this term, the customer may want to keep the term at 20 years, so they can continue to pay it off in line with existing conditions. If they opt for a longer loan term, you will need to explain the additional interest charges over the life of the loan that they will incur.

Example 2:
If the customer only requires a $20,000 supplementary loan to purchase a car, then you need to discuss the benefits and limitations of the different loan terms on offer, and ensure the customer weighs them up before locking in a term.

Interest rate preferences

As part of your discussion about the interest rate that applies to the proposed loan solutions, you must determine the customer's interest rate preferences and what they value most. These inquiries will supply the reason for the customer's choice between variable and fixed rates. For example, do they want:

- Protection from rising interest rates?
- Flexibility to make extra repayments?
- Ability to make large additional repayments?

Repayment preferences

You need to document the customer's repayment preferences and what they value most. For example:

- Pay loan off as soon as possible.
- Minimise repayments over a specific period.
- Maximise taxation benefits on an investment property.
- Cover a defined period of reduced income.

Interest only preferences

If the customer preference is for interest only (IO), make sure you provide details about why they made this choice, in addition to selecting the customer reason. Your documentation should include detailed notes about their response, considering the specific features and risks that the customer should be aware of, that relate to their chosen product and structure.

- If the loan is IO, does the IO period align with the client's needs and requirements?
- What are the reasons the customer has requested an IO term?
- Have the clients been made aware that the IO term means they will pay more interest compared to a principle and interest (P&I) loan?
- Once the IO converts to P&I, can the customers meet the loan repayments?
- Are they aware no principal will be paid off during the IO term?
- Are they aware that deferral of principal repayments will increase the scheduled repayments required to pay out the loan within remaining term after the IO period expires?
- How does the IO term align with the customer's strategy? For example, do they want an IO for two years while household income is reduced because one applicant is on parental leave?
- What is the customer's strategy once the IO term expires?

Reasoning

After you have discussed the lender, product type and loan features and discovered what is most important to the customer, you need to adequately document why these factors are important and how they will meet the customer's needs and objectives.

Examples of reasoning may include:

- Better management of their weekly budget.
- Saving for future or unexpected expenses.
- Discipline in their ongoing budget with kids commencing high school soon.
- Flexibility to pay down the debt.
- Flexibility to cover future family plans or when payments may need to be reduced.
- Pay off their debt as soon as possible to create equity to purchase an investment property.

You need to document the relevant circumstances which highlight why the proposed solution is not unsuitable for the customer.

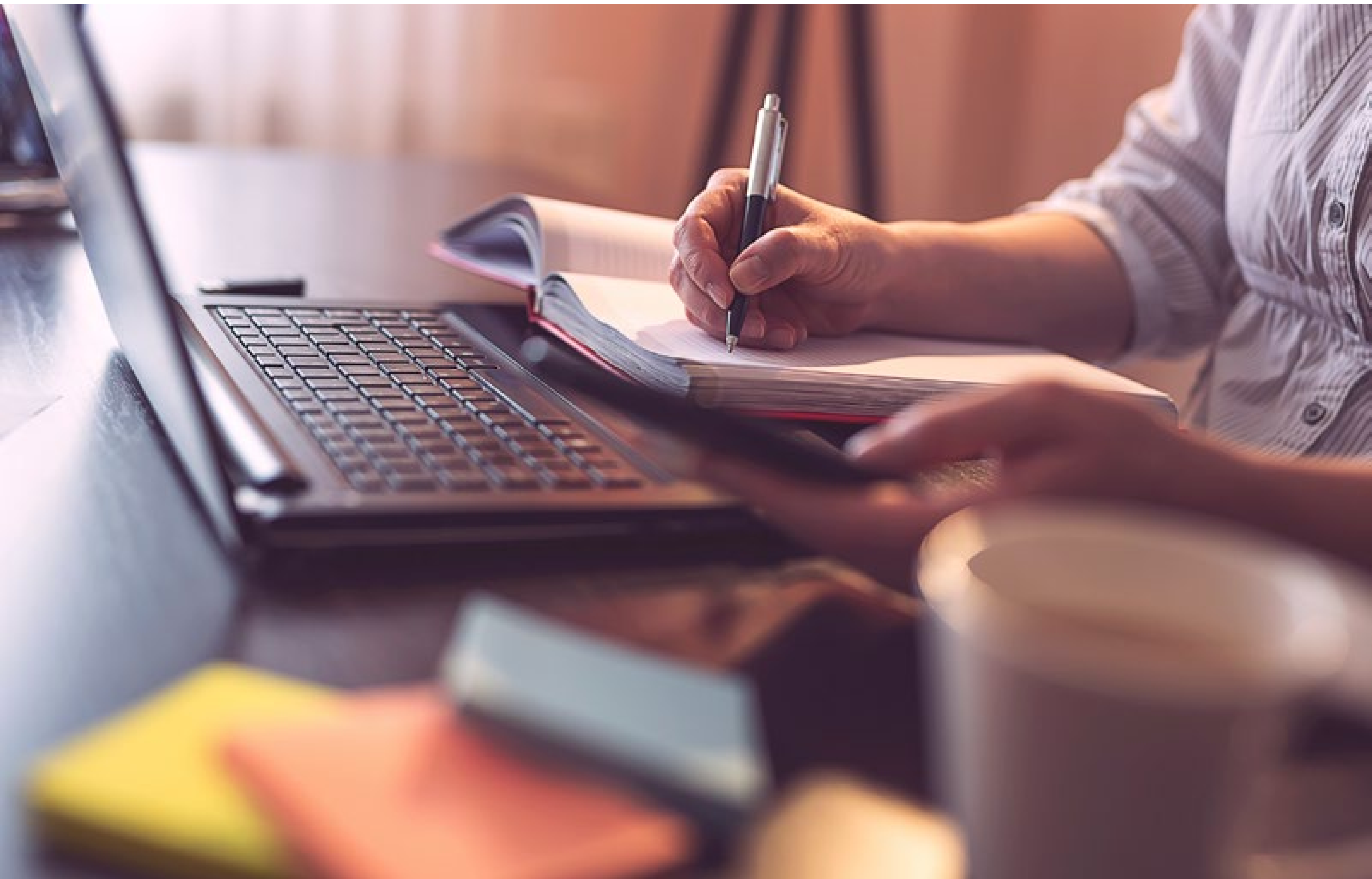
Key points to be documented

In your documentation, please detail how the following elements help your solution to meet the customer's requirements, as well as their current and future financial circumstances:

- Product type
- Repayment type and frequency
- Loan term
- Loan package and other products.

Your notes should also explain the customer's choices. For example:

- The customer selected the fixed rate option as they wish to have certainty in the cost of their weekly repayments.
- The customer selected the variable rate option as they intend to work overtime during the next six months and use the extra income to make additional repayments.
- The customer selected an IO loan as they intend to purchase an investment property and an IO loan will help them to maximise their tax advantages.



Needs Analysis Section 6:

Anticipating changes

Understanding if there is likely to be changes to the customer's financial situation which will impact their ability to repay their loan, is an important discussion to have with the customer.

What are foreseeable changes?

The ASIC Regulatory Guide RG209, gives some examples of foreseeable changes such as:

- The customer is planning on retiring.
- The customer's existing loan is interest only and will shortly be reverting to principle and interest.

However, there could be many circumstances which affect the customer's financial situation. Each customer is unique and therefore, you must discuss this with your customer and document the conversation. What is 'reasonably foreseeable' is difficult to set a time ruling on. Connective provides a guide of 6–12 months as 'reasonably foreseeable'.

Please consider the following questions to discuss with your customer.

Employment changes

Will there be any temporary or permanent employment and/or income changes such as:

- Changes to/from full time, part time, casual, or fixed term contract employment?

What is 'reasonably foreseeable' is difficult to define. Connective provides a guide of 6–12 months.

- Changes in overtime or commission income?
- Approaching retirement?
- Career break?
- Starting their own business?

Family and personal changes

Will there be any changes to the customer's family or personal circumstances such as:

- Planning to start a family?
- Children moving to private school?
- Undertaking further education?
- Will they have any medical costs?
- Will they be getting married?
- Will they have wedding costs?
- Will they have to care for aging parents?
- Are they planning an overseas holiday?
- Will they be purchasing a new car?

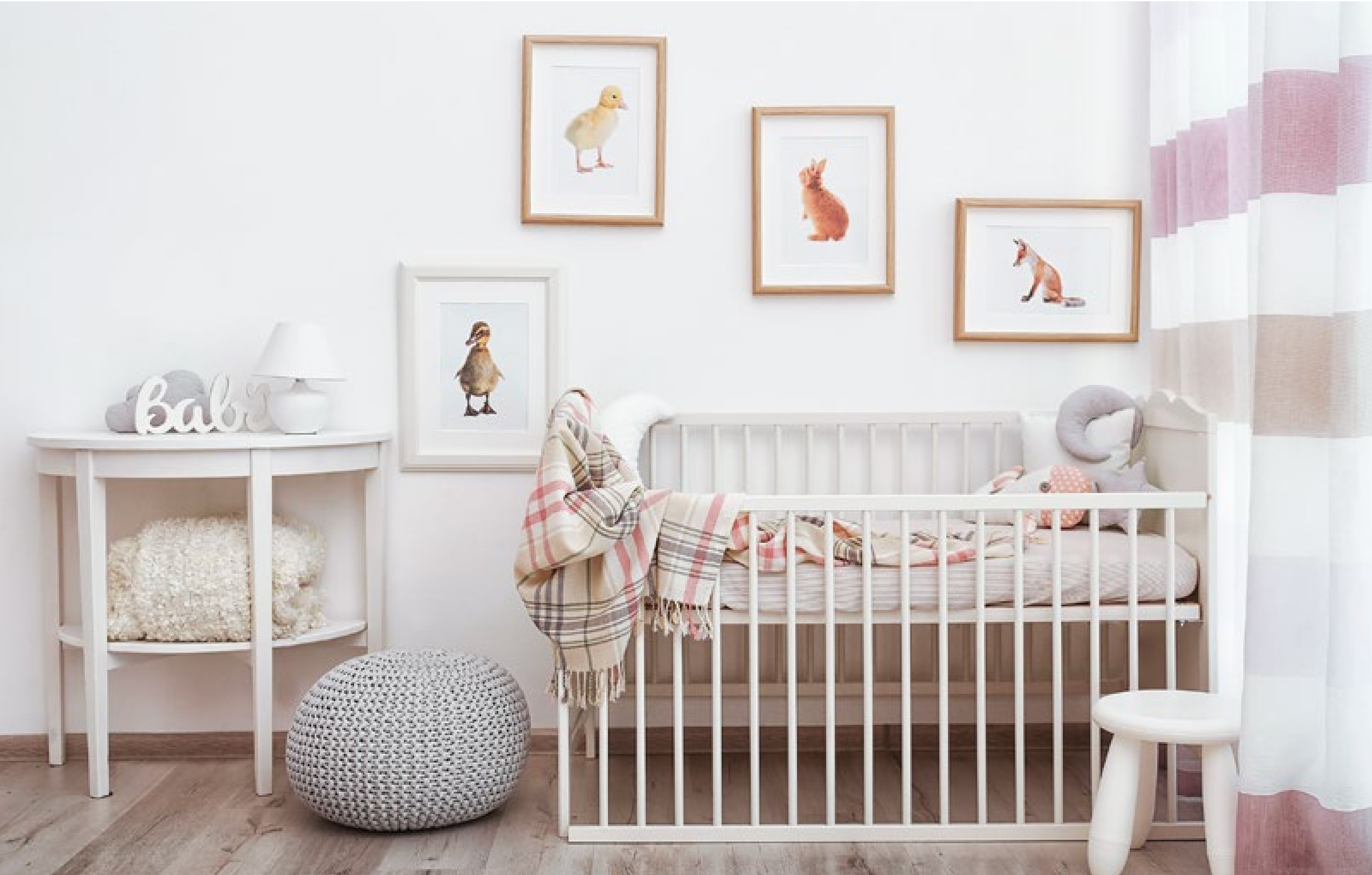
Reduced income periods

If your questions uncover the possibility that the customer will experience a period of reduced income, how does the customer plan to cover their loan repayments? Please ask the appropriate questions and be sure to document the customer's responses. For example:

- Will they have additional income from another source — like investment income?
- Are they considering adjusting their loan term to factor in retirement?
- Do they plan on reducing expenditure? For example, taking the children out of private school?

You must ask the appropriate questions to understand the customer's plan to meet their loan repayments during any reduced income period.

- Do they plan to cover cost by selling their assets? For example, downsizing property, or selling shares?
- Are they planning to draw on savings or superannuation?
- Will the co-borrower's income be sufficient to cover their repayments and costs?
- Do they have another plan?



Needs Analysis Section 7:

Insurances and asset protection

While no one wants to think about the dreaded "what if…?", it is an important function for you as a broker to at least ask the customer some basic questions.

The right insurance helps a customer protect their family and their assets — asking these questions shows you care.

Any recommendations you make about insurance products should be made in the customer's best interests. To determine what insurance products may be required, consider the following questions.

- How would the customer repay the loan if something happened like loss of employment, illness or in the worst-case scenario, they or a partner passes away?
- In the event of financial hardship due to unforeseen circumstances, would they be able to rely on savings, superannuation, or support from their family?
- Would they be forced to sell their home or other assets?
- Do they have another plan to cover these contingencies?

Being able to complete referrals to Connective's insurance providers is a great cross selling tool and adds value to your service to your customers.

Needs Analysis Section 8:

Customer identified living expenses

Determining the customer's living expenses is not only part of your responsible lending obligations, it ensures the customer can truly afford the loan without substantial hardship.

If the customer has indicated a low figure for their living expenses, discuss it with the customer and document the conversation.

Using the HEM to estimate a customer's living expenses is no longer acceptable. Even if the customer is currently living at home rent free with Mum and Dad, an estimated living expenses figure is not good enough to meet your responsible lending obligations. In this case scenario, you would need to determine what their living expenses will be after they have taken out the loan and are living in their own home.

To assess your customer's living expenses accurately and thoroughly, please discuss each of the following expense categories with your customer, as detailed in the Needs Analysis.

Childcare
Including nannies.

Clothing and personal care
Clothing, footwear, cosmetics, personal care such as hair dressing, regular massage therapy, etc.

Education
Public and private education fees and associated costs including books and uniforms, etc.

Groceries
Typical supermarket shop for groceries including food and toiletries.

Insurance
All insurance including health, home and contents, motor vehicle, life and income protection.

Medical and health
Medical and health costs including doctor, dental, optical and pharmaceutical etc. (excluding health insurance which is categorised under insurance).

Owner-occupied property utilities, rates and related costs
Housing and property expenses on owner occupied property including rates, taxes, levies, body corporate and strata fees, repairs and maintenance, other household items and utilities (excluding insurance, telephone, internet and pay TV as they are categorised separately).

Recreation and entertainment
Recreation and entertainment including alcohol, tobacco, gambling, restaurants, membership fees, holidays

Subscriptions — telephone, internet, pay TV and media streaming
Telephone accounts (home and mobile), internet, pay TV and media streaming subscriptions (such as Foxtel, Netflix and Spotify).

Transport
Public transport, motor vehicle running costs including fuel, servicing, parking and tolls (excluding motor vehicle insurance which is categorised under insurance)

Investment property costs — housing etc
Housing and property expenses on investment property including rates, taxes, levies, body corporate and strata fees, repairs and maintenance, other household items and utilities (excluding insurance, telephone, internet and pay TV as they are categorised separately).

Other
Unique items not covered in the above categories must be explained further. This may include the cost of pet care for example.

For more information on making living expense assessments, download **The Smart Mortgage Broker's Guide to Living Expense Assessments eBook** here.

Subsequent changes by your customer

It is completely understandable that customers may change their mind at any stage in the home loan process.

From the initial interview to the point of draw down or settlement, the customer may seek further advice, have a change in circumstances, receive competitor information or simply just change their mind. This means what was originally proposed and accepted may be different at the end of the process.

If this is the case, you should document any updates and changes in product, repayment options, loan term or other product selections by the customer.

Additionally, if this is a change to an existing loan that you provided—such as the loan settled as a variable loan and the customer now wants to fix a portion of the loan—you should document the reasons why the customer is requesting the change.

Need more information?

Don't forget, your Compliance Team is here to help you with any questions or scenarios. As always, we are available by phone and email to assist you. Simply call 1300 65 66 37 and ask to speak to your local Compliance Support Manager or email compliance@connective.com.au

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