

A guide to

Sovereign Home Loans Lending Criteria

May 2015

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Introduction

Introduction

- This document details the standard criteria that we will consider when making a lending decision.
 - The criteria are not exhaustive and are subject to regular review and change.
- On occasion there may be mitigating factors to justify a loan approval outside of these parameters.
- Likewise, there may be mitigating factors not to justify a loan approval even though parameters are met.
- All applications are considered on a case-by-case basis.

To run a scenario past us please contact our Lending Helpline on 0800 920 920 for immediate guidance.

Customers

Borrower Identification

- It is important that all borrowers are positively identified to ensure that we meet our statutory requirements and help to prevent potential fraud.
- We expect that all borrowers will have been personally interviewed “face to face” by the Adviser prior to submitting any application.
- We are to be provided with the appropriate identification as detailed in our standard Loan Application or Letter of Offer. This is to be certified as a true copy. This certification can be completed by a Sovereign Adviser. Refer to our “Quick Reference Guide requirements for Identification” and “Customer Identification & Verification Form” for more details.

Residency Definitions and Guidelines

Lending to non-residents is considered on a case by case basis. Appropriate identification must be obtained as outlined above.

Trusts

- All trustees are to be jointly and severally liable.
- The liability of professional trustees will be limited to the assets of the trust except where there is a loss of indemnity from the trust.
- Any trustee who is also a beneficiary of the trust cannot be classified as an independent trustee.
- We are to be provided with a “Certified” copy of the trust deed per our “Home Loan Quick reference guide” and “Customer Identification form”.

Companies

- All directors/shareholders are to be jointly and severally liable by way of a guarantee.
- LAQC & LTC companies are acceptable.
- Trading companies are not acceptable.

Guarantors

- The full personal covenant of a guarantor is required.
- No guarantee will be accepted on an unsupported basis. The guarantor must provide the supporting collateral of first mortgage security.
- Guarantors are required to receive independent legal advice if they are not benefiting from the loan proceeds.
- Guarantees are taken on an "all obligations" basis unless a specific request is made to limit the amount of the guarantee. In these instances, the guarantee may be limited to the loan amount plus all interest and costs.
- The guarantors must have a full understanding of the product and their contractual obligations which means, if and when a guarantor has a financial obligation to a borrower's loan you must:
 - Provide a fully completed and signed Statement of Financial Position from the guarantor(s);
 - Provide evidence of the income that the guarantor(s) has to meet any proposed and future loan obligations under the guarantee;
 - Provide a completed copy of the UMI calculator based on the guarantor's income, expense and guarantor obligations; and
 - Confirm in your application that you have provided advice to the guarantor(s) to seek independent legal advice.
 - The guarantor must be able to independently meet UMI requirements. Exceptions can be considered subject to other assets held.

Compliance

Credit Contracts and Consumer Finance Amendment Act 2014 (CCCFA) and the introduction of the Responsible Lending Code (RLC)

Objective & Background

There are some changes to the CCCFA taking effect on 6 June 2015 that will impact the way you introduce customers to us for the purpose of considering Home Loan applications.

The changes include the introduction of lender responsibility principles and the RLC, which provides guidance on how to implement the principles. **To ensure compliance with these principles we ask you to review your practices and comply with the following:**

RLC Section 4: Inquiries into and assessment of borrowers' requirements and objectives

You are required to undertake certain inquiries into the borrower's requirements and objectives to satisfy Sovereign that the products offered are likely to meet the borrower's requirements and objectives. This includes:

1. The amount of credit sought or the maximum amount of credit sought by the borrower.
2. The purpose for which credit is sought.
3. The timeframe for which the credit is required (e.g. the term of the loan agreement that the borrower is seeking if any particular term is sought).
4. Whether the borrower requires particular product features or flexibility, the relative importance of different features to the borrower, and whether the borrower is prepared to accept any additional costs or risks associated with these features.
5. Whether the borrower requires the amount financed to include any additional expenses, such as premiums for insurance related to the credit.

RLC Section 5: Inquiries into and assessment of substantial hardship (borrowers)

You will assist Sovereign with an assessment of the borrower's ability to repay and make reasonable inquiries to be satisfied that it is likely that the borrower will make the payments under the agreement without suffering substantial hardship. This will include undertaking enquiries to verify that the supporting documentation is both accurate and correct.

RLC Section 6: Inquiries into and assessment of substantial hardship (guarantors)

Where there is an offer of a third party guarantee, you will assist Sovereign with an assessment of the guarantor's financial position including income and fixed financial commitments. You will make inquiries to be satisfied that in the event the guarantors are required to make the payments under the agreement, they will be able to do so without suffering substantial hardship.

When an offer of a guarantee occurs, you are required to ensure guarantors have a full understanding of their contractual obligations. You are required to explain the different types of guarantee options available e.g. limited to amount and limited to facility.

Sovereign has made the following changes to its credit policy when considering applications that include guarantors:

1. Our assessment of guarantor hardship will be undertaken using a standard uncommitted monthly income calculation. You are required to provide details of a guarantor's income and fixed financial commitments,

assets and liabilities and complete the UMI calculator in regard to the guarantor and the proposed guarantee liability.

2. Where the guarantor has a negative UMI, we will consider other assets as supporting security e.g. other residential property.
3. Where the guarantors UMI is negative and the only asset being offered is the family home, Sovereign will not accept the guarantee offer.
4. Sovereign requires all customers proposing to provide a guarantee and/or act as a guarantor, to seek independent legal advice.

Independent Legal Advice

Where you are aware of the following situations, you are required to advise the borrower to seek independent legal advice:

1. More than one party will be the borrower under a credit agreement, but only one of those parties will receive the direct benefit of all money lent; or
2. Any borrower may be under undue influence from any other party, including another borrower or any third party who will receive the direct benefit of all money lent.

RLC Section 7: Assisting Borrowers to make an informed decision

Sovereign requires all Advisers or Agents to help customers make an informed decision by discussing the following key features with customers seeking new facility or variations / changes to existing facility:

AMOUNT & TERM:

- Amount of the borrowing
- Term of the facility

INTEREST RATES:

- Interest rates (variable / fixed)
- Total amount of interest to be paid over the term of the borrowing (applicable to lending products where the term is less than 7 years)

REPAYMENTS:

- Regular repayment amount
- Total amount of repayment to be paid over the term of the borrowing (applicable to lending products where the term is less than 7 years)

DEFAULT PAYMENT IMPLICATIONS:

- In the event of the borrower not repaying the loan and defaulting, any security being offered in support of the loan is at risk
- Debtors right to apply for relief on the grounds of unforeseen hardship

FEES & CHARGES:

- Any prepayment fees associated with repaying a fixed-rate agreement earlier than the term
- Any default and late payment fees. This includes the default interest rate. Details are available at: www.sovereign.co.nz

CANCELLATION:

- Customer's right to cancel the agreement within the specified number of days. (this period is currently 5 days),

RLC Section 14: In situations where you suspect or become aware of any oppression of borrowers or guarantors interest, you are required to immediately notify Sovereign.

To comply with the lender responsibilities, Sovereign must ensure that its staff and Advisers or Agents do not induce the borrower and/or guarantor to enter into the agreement or give a guarantee by oppressive means. Sovereign should:

1. Require staff and / or Advisers or Agents who interact with the borrower or guarantor to consider whether there are any matters which lead them to reasonably believe that the borrower or guarantor may not realistically be able to protect their own interests (e.g. due to their age or physical or mental condition); and
2. Take particular care with borrowers that do not appear to be reasonably able to protect their own interests, including considering whether the lender should recommend those borrowers or guarantors to be provided with, or referred for, independent legal advice or other specialist expertise.

Further Information

The following information is available on the Consumer Affairs website to assist you to become familiar with the new Responsible Lending Code (RLC), and the changes to requirements under the CCCFA (click on the following links or copy the ULR into your web browser):

Publication of Credit Contracts and Consumer Finance Amendment Regulations 2015

<http://www.consumeraffairs.govt.nz/news/general/publication-of-credit-contracts-and-consumer-finance-amendment-regulations-2015>

Responsible Lending Code

<http://www.consumeraffairs.govt.nz/legislation-policy/changes-to-credit-laws/news-resources/news/responsible-lending-code-released/?searchterm=None>

Please remember, as part of your obligations in your Adviser agreement, we require you to assist us to comply with these consumer law changes.

If you have any questions, please contact your Business Development manager or our Lending Helpline to discuss.

Loan Terms

Minimum Loan Amount

- | | |
|---------------------------------------|----------|
| ▪ Minimum new loan amount | \$25,000 |
| ▪ Minimum individual component amount | \$ 5,000 |
| ▪ Minimum top-up amount | \$ 5,000 |

Minimum Loan Term

- 1 Year

Maximum Loan Term

- 30 Years (including any interest-only component).
- The lender may reduce the loan term where in the opinion of the lender, the proposed expiry of the loan exceeds the realistic ability of the borrower to continue to earn an income at a level that will service the loan.
- Loan term may be reduced if other aspects of the criteria are not met.

Interest-Only Loans

- 5 Years maximum term.
- Not available when LVR is greater than 90%.
- Existing P&I loans may be converted to interest-only or existing interest-only terms may be extended on a case-by-case basis. Repayments will be re amortised upon the expiry of the interest only period to ensure the loan is fully repaid by the original maturity date.
- Requests detailing the reason for the request can be made verbally or in writing by either the borrower or the adviser

Repayment Holiday Requests

- 3 month full repayment holidays are available on a case-by-case basis.
- Capitalised interest will be amortised over the remaining loan term.
- Not available when the resultant LVR is greater than 90% except for reasons of hardship.
- Requests detailing the reason for a Repayment Holiday must be submitted in writing and signed by all borrowers.
- The lender is unlikely to approve a second repayment holiday request within any 2 year period although consideration will be given for reasons of hardship on a case-by-case basis.

Low Equity Fee

- LEF is required for all new clients where the LVR exceeds 80%.
- LEF is required for existing clients where as a result of increasing borrowings the LVR exceeds 80%.
- The LEF fee is payable by the borrower upon advance.
- The LEF fee can be capitalised and we will automatically do this unless advised that the borrower would prefer to have the fee deducted from the loan proceeds.
- LEF rates are detailed below
- The LEF fee is non-refundable irrespective of when the loan is repaid.

Loan to value ratio	LEF Ratio
80.01% - 80.99%	0.25%
81.00% - 82.99%	0.33%
83.00% - 85.99%	0.50%
86.00% - 87.99%	0.65%
88.00% - 90.00%	0.75%
90.01% - 95.00%	1.00%

Cash Contribution

The amount of a cash contribution (if any) is negotiable on a case by case basis; please talk to the Lending Account Manager in regard to this.

For cash contributions of \$3,000 or more, a cash contribution agreement signed by the customer(s) is required. The cash contribution agreement is the customer(s) confirming that they will maintain their lending relationship with Sovereign Home Loans for at least two years from the date of the agreement.

The agreement will be provided to the Lending Account Manager via an e-mail for you to facilitate signing with your customer(s), and once signed must be e-mailed back to us with the signed Letter of Offer.

Important Note: You must fully disclose and explain that by signing the cash contribution agreement, the customer(s) agree to the repayment conditions in the letter, i.e. if they repay part or all of their loan facility(ies) within two years they agree to repay the cash contribution to us.

Fixed Rate Holding Policy – New Business

The period between Receipt and Conditional Approval:

- Letters of offer issued at 'Approval in Principle' or 'Conditional Approval' quote indicative interest rates which are subject to change prior to Full Approval.

The period between Full Approval and Acceptance:

- The interest rate will be held pending acceptance until the next business day following the full approval.
- Should acceptance occur after this period, the approved rate will expire and the rate will be amended to the current prevailing interest rate. If a negotiated interest rate has been provided, a new quote will be required.
- Should interest rates reduce between Full Approval and Acceptance; the current prevailing interest rate will apply.
- Should loan documentation be deferred, the interest rate will be amended to the current prevailing rate at date of documentation.

The period between Documentation and Drawdown:

- The interest rate will be held for 60 calendar days from the date of documentation.
- Should interest rates reduce prior to advance, we will require a written request to apply the lower rate at least 7 calendar days prior to drawdown date. Otherwise the documented rate will apply.
- If a request to re-document the loan is received, documented interest rates will be retained provided loan advance occurs within 60 calendar days of original documentation date. Otherwise, current prevailing rates will apply.

Glossary

Term	Definition
Receipt	The date the loan application is received by Sovereign.
Approval in principle	Approval of a scenario, where a property is yet to be identified.
Conditional approval	Approval where a property has been identified, subject to confirmation of outstanding supporting information.
Acceptance	The date the signed letter of offer acceptance page is received by Sovereign
Full approval	Approval which is issued upon receipt of all necessary supporting information.
Current prevailing interest rate	Sovereign's published interest rate effective as at a particular date.
Documentation	The date the loan documentation is issued by Sovereign. This will generally occur within 2 business days of acceptance.
Drawdown	The date the loan is advanced.

Fixed Rate Rollover

- Upon receipt of a fixed rate expiry letter, clients may secure current prevailing interest rate, which will be held and applied at fixed rate rollover. Once rollover instructions have been actioned, normal Early Repayment Adjustment (ERA) provisions apply.
- When interest rates change in the period between an adviser having received a fixed rate instruction from their client and Sovereign receiving the instruction, then Sovereign will apply the pre-change rate to the loan, provided that:
 1. The adviser has received the instruction in writing from the customer prior to the notification of interest rate changes by Sovereign.
 2. Sovereign receives the request to apply the pre-change rate together with the customer's written instruction by 5pm on the business day following the effective date of any rate increase.
- Should clarification of rollover instructions be required, rate will be held for up to 1 business days pending receipt, otherwise current prevailing rate on date of receipt will apply.

Glossary

Term	Definition
Fixed rate expiry letter	Letter sent to client 6-8 weeks prior to expiry of existing fixed rate.
Effective date of a rate change	The date a change to Sovereign's published interest rates take effect.
Current prevailing interest rate	Sovereign's published interest rate effective as at a particular date.
ERA	Early Repayment Adjustment – cost charged to client for breaking a Fixed Rate contract.
Rollover request	Request to re-fix loan at expiry of existing fixed rate.

Loan Purpose Guidelines

For all loan applications, a breakdown of the specific loan purpose is to be provided. The lender may require further detail or confirmation.

Debt Consolidation

- Allowable up to 90% LVR subject to lender acceptance
- The lender may require statements on all short-term credit facilities to establish the nature of expenditure and repayment history – refer to Page 12 for requirements on statements.

Equity Release

- Allowable up to 80% LVR subject to lender acceptance
- The lender will give due consideration to the purpose of the request and may require suitable supporting documentation.

Deposit Requirements

Introduction

- A borrower is required to contribute a deposit towards any lending transaction.
- This deposit to be sourced from the borrowers own resources. Consideration will be given where a portion of this is from borrowed monies,
- The lender will require a suitable audit trail to confirm the source of the deposit and to be satisfied that the monies belong to the borrower.
- Advisers must disclose whether there is an intention to permit another party to register a subsequent charge.
- As a result of the Reserve Bank of New Zealand's restrictions on high loan to value ratio (LVR) lending, we are unable to permit a borrower to grant a charge in favour of another person over the proposed security property where the combined sum of the lending will exceed 80% of the property value.

Minimum Deposit Requirements

- The following table states the minimum deposit requirement for each loan product and details, which deposit source, may be used to meet this minimum requirement.

Deposit Source	LVR 0-80%	LVR 80.01%-95%
		Min. 5% to come from
Genuine Cash Savings	Yes	Yes
Gift	Yes	Yes
Inheritance	Yes	Yes
Sale of Car or Similar Asset	Yes	Yes
Sale of Previous House	Yes	Yes
Family Loan	Yes	No
Second Mortgage	No	No

Confirmation Requirements

Genuine cash savings	A current statement showing the deposit funds is sufficient.
Gift	A signed letter confirming money is a gift and does not need to be repaid. Any gift or other benefit given by a property vendor is excluded. The amount of the gift or other benefit is deducted from the amount shown on the S&P agreement to ascertain a <u>net</u> sale price. LVR calculation is then based on this net figure. The exception to this rule is if the property vendor is a closely related family member. We refer to these transactions as advantageous purchases and will consider on a case-by-case basis.
Inheritance	A suitable audit trail.
Sale of a car or similar asset	A suitable audit trail.
Sale of a previous house	A solicitor's settlement statement or a copy of the S&P agreement together with details of any existing mortgage.
Family Loan	A signed letter detailing terms of the loan.

Loan History & Bank Statement Requirements

Requirements

- For **refinance** applications:
- Where an applicant requests to refinance borrowings from another financial institution, the following documentation must accompany a finance application:
 - Evidence of income;
 - Evidence of current debt outstanding;
 - Copies of original statements providing satisfactory repayment history of loan and transactional/cheque accounts (minimum of 6 months, internet statements may be accepted if they meet our requirements) ;
 - For any short term credit facilities being consolidated a minimum of 3 months statements are required for each debt.
- A credit check may be requested by Sovereign prior to issuing any approval.
- For **purchase** applications, we may call for transaction account statements in addition to evidence of deposit.

Credit Check Requirements

A credit check is a credit history of each individual customer, and may be requested prior to issuing any loan approval.

- The lender will consider additional adverse credit entries on a case-by-case basis.
- A written explanation should be submitted detailing the reasons for the adverse items and the contributing circumstances that the lender should take into account.

Income and Expense Criteria

Allowable Income Sources

Nature of Income	Scaling	Main Considerations
Salary and Wage	100%	Consideration given to previous employment stability and industry. Overtime can be included when regular and long term (> 1 year).
Commission	100%	Must be consistent for the past 12 months. Consideration given to previous income capacity and industry.
Second Job	100%	Must have been in job for 6 months.
Casual Job	100%	Must have been in job for 6 months.
Part-Time	100%	Must be permanent.
Self-Employment	100%	Self-employment is defined as a borrower having more than a 20% shareholding in the company or business from which their income is derived from. Consideration can be given when trading has been for less than 2 years subject to evidence of previous earning capacity.
Overseas Income	70%	Overseas income may be considered on a case by case basis.
Working for Families (paid by WINZ or IRD)	100%	Acceptable only for dependants aged 13 or younger at the time of application. This provides for an average entitlement period of at least 5 years
WINZ Benefit	100%	Base Benefit and Accommodation Supplement (includes Jobseeker Support/ Unemployment Benefit)
Superannuation	100%	
Boarder	75%	Boarder income to be scaled at 75% (excluding overseas students). Boarder income for overseas students to be scaled at 50%. Maximum of two boarders. Maximum of \$150 per week gross each.
Rental Income	75%	Based on gross rental income.

Excluded income Sources

- Non-taxable income or allowances
- Student allowances
- Irregular or short term overtime and income
- Child or spouse maintenance
- Income from serviced apartments
- Income derived from lifestyle blocks
- ACC payments
- Bonuses

Applications that rely on income sources that are not included in our GRI calculation may still be considered on a case by case basis. Please include these in your write-up as they may be considered as a mitigating factor

Income Verification Requirements

Nature of Income	Verification Requirement
Salary and Wage	<p>Current letter on company letterhead from applicant(s) employer, setting out the nature composition of earnings (including over time and bonus components) and length of employment.</p> <p>Applicant(s) most recent payslips showing the employer and employees names, as well as the base salary and extras. If no annual figure is displayed, 3 payslips are required.</p> <p>The latest IRD 12D (payee deduction certificate).</p> <p>Bank statements can be used if the customer income (salary or wages, not cash) is being credited to a bank account.</p>
Second Job	As per Salary and Wages
Casual Job	As per Salary and Wages
Part-Time	As per Salary and Wages
Self-Employment (including commission only)	<p>Financial accounts for self-employed borrowers must be prepared by an Accountant and no more than 18 months old.</p> <p>The income of self-employed borrowers is to be determined by the review of their financial data to identify:</p> <ul style="list-style-type: none"> • all pre-tax personal income derived from the business; • That the business is solvent and its performance is satisfactory. <p>Allowable add-backs.</p> <p>Home office expenses</p> <p>Depreciation</p> <p>Rent if paid to a related entity (while giving consideration to that entity's obligations)</p> <p>Shareholder salary or wage. (If paid before NPBT calculation)</p> <p>Interest if the applicable debt is being refinanced</p>
Working for Families	<p>Copy of entitlement letter stating basis that calculation is made on.</p> <p>As an alternative, refer to the website www.workingforfamilies.govt.nz and confirm the entitlement.</p> <p>Note that payments are non-taxable so should be grossed up.</p>
WINZ Benefits	WINZ entitlement letter, which is to state the level of taxable family income that has been allowed for in calculating benefit entitlement
Superannuation	<p>WINZ entitlement letter.</p> <p>Direct credits to Bank account.</p>
Boarder	<p>Bank statements for no less than 3 months showing regular, reference deposits.</p> <p>A signed formal agreement (or letter) between the borrower and the boarder stating the amount of board being paid, or that will be paid.</p>
Rental Income	<p>Copy of tenancy agreement or IRD personal tax returns.</p> <p>Rental manager's statement.</p> <p>Bank statements clearly showing rental deposits (internet bank statements may be used if authenticity can be clearly identified e.g. bank logo is authentic).</p>

Fixed Financial Commitments

These are payments the borrower is obligated to make, either by law or through a legal contract. This includes payments of interest and principal on all borrowings/fixed financial commitments, such as:

- Rent or Board commitments
- Body Corporate Fees
- Ground Rent on Leasehold Property
- Home Loan
- Overdrafts – (5% of overdraft)
- Revolving credit facilities
- Hire Purchase payments
- Credit cards (includes store cards) – (credit cards 2.5% of credit limit)
- Personal and Family loans
- Child maintenance
- Childcare costs
- Student Loans
- KiwiSaver payments
- Student Loan.

Student Loan Threshold: \$19,084 which is equal to \$367 per week (before tax).

Repayment Formula:

(Annual income - repayment threshold) x 12% = repayment obligation for the year.
(\$30,000 - \$19,084) x 12% = \$1,309.92p.a. ÷ 12 = \$109.16 per month.

For more information go to: www.ird.govt.nz/studentloans/repayments

Uncommitted Monthly Income (UMI)

Customers' ongoing monthly living expenses must be requested and captured for any lending application. This will include ongoing expenses for:

- Child care costs
- Education costs (school fees)
- Transport (petrol, train, bus fares)
- Utilities (electricity, water rates, gas, council rates, phone, internet)
- Clothing
- Food (groceries, meat, fruit, vegetables)
- Health care (including medical insurance costs)
- Other expenses (child support, entertainment, regular holidays, pay TV, insurance)

No supporting documentation is required to confirm a customer's living expenses. This information can be included in any one of the following: application form, UMI calculator or HomePage

The most appropriate level of Monthly Living Expenses for each application will be determined by taking the higher of:

- The customers declared monthly living expenses or;
- The minimum acceptable average living expenses amount (currently determined by Sovereign)

The minimum acceptable average living expenses have been based on average household expenditure.

The minimum acceptable average living expense components are as follows:

Description	Total monthly living costs (1 Adult & 1 Child)
For each single adult	\$600
For each couple	Refer per adult
For each dependent	\$295
For rates	\$155
Utilities	\$255
Insurance	\$90

These figures along with the borrowers' additional outgoings (Loan Servicing, Fixed Financial Commitments Tax) are subtracted from the Gross Income to leave an uncommitted figure of no less than the minimum threshold.

Where a client has an Investment Property(s), and this income is used in the application, you do not need to allow for rates and insurances. Sovereign's rental income scaling of 75% includes coverage for rates, insurance and vacancy.

A set interest rate is used to determine the loan servicing component of the Uncommitted Monthly Income (UMI) calculation in order to ensure we make adequate allowance for the forecasted increase in market interest rates. This set interest rate is reviewed on a regular basis and communicated to advisers.

Currently Sovereign requires an Uncommitted Monthly Income of \$120 after allowance for living expenses.

Security Considerations

Form of Security

- The only form of security acceptable is a first ranking mortgage registered at LINZ.
- Mortgage is to be prepared by the borrowers' solicitor.

Lower of Cost or Valuation

- When determining LVR the property value is based on the lower of cost or valuation;
- We will accept a higher valuation figure within the 6-month periods, provided it can be clearly demonstrated that the valuation has been enhanced due to monies being spent on property improvement or refurbishment;
- A property will often be purchased off the plans or during construction with completion a lengthy period in the future. Alternatively title issuance may also delay loan settlement. In these situations we will decide whether to utilise the cost price or the current valuation as the property value on the following basis:

S&P Agreement signed less than 6 months ago – the lower of cost or valuation

S&P Agreement signed more than 6 months ago – the current valuation.

Properties subject to GST

- If GST is payable or can be claimed in respect of a property, the LVR calculation is based on the GST adjusted value of the property.
- The calculation formula is:
 - Property value
 - *Divide* by 23
 - *Multiply* by 20
 - *Equals* lending value

Weather tightness issues applicable to Apartments and Terraced Houses

- The lender is unlikely to accept any property with weather tightness issues.
- If the lender has any concerns about a property, a detailed individual building report from a building inspector specialising in weather tightness issues will be required.

Valuation requirements

LVR is a component of Sovereign's application assessment. There are no maximum LVR criteria for any residential property security types. A valuation assessment will form part of the application decision process and will determine the type of valuation that is required, or if further assessment is required when the LVR exceeds 80%.

Quotable Valuation (QV)

Requirements and Parameters

- QV's must be no more than 3 years old at the time of application.
- Must be identical to the security on offer (i.e. address and legal description).
- Only to be used on fee simple type property (freehold).

E-Valuer Valuations

The lender will assess and determine if an E-Valuation is acceptable on a case by case basis, taking into account a number of factors including loan purpose, property type, and the confidence levels specific to each E-valuation.

Note: There are situations where an E-Valuation will not be suitable, including:

- Security classification (e.g. Maori land, Leasehold etc.)
- Security location and/or value
- Where there is insufficient sales information to accurately calculate a reliable E-value

Desktop Valuations

The lender will assess and determine if a Desktop valuation is acceptable on a case by case basis, taking into account a number of factors such as loan purpose and property type, All Desktop valuation reports are to be sourced via the Desktop valuation service advised by the lender.

There are a number of reasons why a Desktop might not be available for some properties, such as: additional complexity which includes: property type (apartments, leaseholds, higher value properties); or location (only done within urban city boundaries).

Note: A valuer may escalate the Desktop valuation to a full market valuation (equivalent to a Registered valuation) if the property does not meet the required criteria. This includes factors such as the property being substantially renovated, weather tightness issues, or property data different to the information provided.

Registered Valuations

All registered valuation reports provided are to be sourced via the panel valuation service as advised by Sovereign.

Factors which will influence if a Registered Valuation is required include property location and property type. If a Registered Valuation is required you will be advised by the Account Manager processing the loan application.

Lending against Sale & Purchase Agreements

Requirements and Parameters

- Properties are to be sold through a Licensed Real Estate Agency (unless a Private Treaty, in this case a Registered Valuation may be required).
- Maximum purchase price \$1,500,000
- A quotable valuation must be available on the property and this must evidence property improvements.
- Property zoning must be residential.
- Must be signed by all parties to the agreement and any alterations on the agreement are to be initialled by all parties.
- Vendors are to be the current registered owners.
- Have the correct street address and full legal description.
- The lender will verbally confirm purchase price with the real estate agent.

Specific Property Criteria

Apartments

Definition

- Apartments are defined as a dwelling within a multi-level building greater than 2 levels. There is usually internal access via a common foyer. For lending purposes these must be situated within city/town boundaries and must be purpose-built for residential occupation, not converted commercial / industrial / hotel / motel properties. A minimum size of 40 square metres applies.

Acceptable Repayment Terms

Minimum loan repayment term is 6 months. Maximum overall repayment terms is 25 years.

UMI must include Body Corporate fees and Ground Lease Payments.

No 'interest only' is available.

Terraced Houses

Definition

- Terraced houses are considered to be different to apartments. Town houses / home units that are on a separate title and have individual outdoor recreation areas are not considered to be apartments.

Acceptable Repayment Terms

Minimum loan repayment term is 6 months. Maximum overall repayment term is 30 years.

Lifestyle Properties

- The value of any non-residential improvements (such as farm or horticulture related) will be deducted and the LVR will be calculated on the net value.
- LVR criteria may differ for properties up to 10 hectares and over 10 hectares.
- Must be near to a major metropolitan or provincial centre (approximately 50km's) and have comparable sales nearby.
- Income from the property cannot be included for serviceability purposes.

Vacant Land

- Any Security address must be within 50km of city boundaries
- Utilities (Power, Phone, Sewage etc.) are available for connection
- Property has public access to roads
- Loans against vacant land are available provided that it is intended to erect a dwelling within 5 years and the borrowers can demonstrate the financial capacity to accommodate this.

Excluded Property Types

We will not lend on the following:

- Boarding houses or houses let on a room-by-room basis
- Builders display homes
- Commercial or industrial use or zoned properties
- Company Titles
- Contaminated properties
- Construction projects that are self-managed
- Conversions from previous commercial or industrial usage
- Government-planning scheme affected properties
- Farms
- Hotel or motel redevelopment
- Income producing rural property
- Kit-set or transportable homes
- Land subject to a Treaty of Waitangi claim
- Leasehold Properties
- Lease for life covenants
- Maori land
- Multi-unit dwellings where there are more than three units on one title
- Non-Land Transfer Act properties
- Poorly maintained or in need of significant repair properties
- Properties used for business purposes (home office acceptable)
- Proportionate Titles
- Retirement units or units restricted by covenant to occupation by the elderly
- Time-share arrangements

Top-Up Criteria

Requirements

Top-Up Existing Security with loans up to \$50,000 where the resultant LVR is 80% or less:

- Short-form Top-Up application or written request detailing purpose and any relevant background information will generally suffice and this can be in letter, facsimile or email format. The adviser should make this request and the borrower's signature is not required.
- Satisfactory past loan conduct
- UMI criteria must be met based on previous income records.
- TAE must not exceed \$750,000.
- Previous credit checks to be clear as defined under CRA requirements.
- Relevant previous file notes will be taken into account and the lender will reserve the right to require a full application form and supporting documentation as required.

\$50,000 is generally the maximum top-up that can be obtained in any 12-month period under the above abbreviated application method.

Top-Up's over \$50,000 and/or where the resultant LVR is greater than 80%

- Full application and supporting evidence is required.

Specific Product Criteria

Construction Loans

LVR may be determined by the registered valuation only provided the cost price is within 10% of the registered valuation amount. If more than a 10% variance the lower of cost or valuation will apply.

Required Documents

- Sale and purchase agreement for the section, if applicable.
- Fixed price contract from an independent builder for all aspects of the construction process.
 - (Any own work portion must be very minor and will be considered on a case-by-case basis. Evidence of costing may be sought.)
- Full specifications
- Registered valuation based on the plans and specifications.
- Builders risk insurance with Mortgage Holding Trust Company noted as the interested party.

Drawdown Procedure - Cost to Complete

- Initial drawdown against the land:
 - Allowable up to 80% LVR within town city boundaries (50Km as a guide)
 - Allowable up to 50% LVR in other localities.
- Progress payments will commence once the construction reaches "base down" stage; the borrower has paid out all of the required project deposit and the confirmation of builders risk insurance is held.
- Progress advances will be made subject to the original valuer inspecting property and providing a cost-to-complete figure. This sum will be retained and the balance of loan monies will be made available to the borrower.
- For final drawdown we will require: valuers completion certificate and confirmation of on-going house insurance with Mortgage Holding Trust Company noted as the interested party.

- Code of Compliance required within 60 days of final drawdown.

Drawdown Procedure - Against Invoice

- Initial drawdown against the land:
 - Allowable up to 80% LVR within town city boundaries (50Km as a guide)
 - Allowable up to 50% LVR in other localities
- Fixed Price contract from Registered Master Builder or Certified Builder
- Drawdown will be made on invoices submitted by the builder provided they match the drawdown schedule as per the contract
- Progress valuations will be at our discretion but as a minimum a progress report is required at "roof on" stage and a completion certificate on final drawdown
- For final drawdown confirmation of on-going house insurance with Mortgage Holding Trust Company noted as the interested party
- Code of Compliance required within 60 days of final drawdown

Repayment Terms

- The loan will be on an interest only basis until completion with a maximum interest-only period of 12 months
- Term of loan starts at this point
- Construction loans are only available on floating rates until fully drawn although the initial drawdown against the land can be on a fixed rate

Third Party Securities

This product is available to clients who wish to purchase a property and have not been able to save the usually required 5% genuine deposit.

They have a third-party (usually close family) who has a property to offer as collateral and will act as co-borrower for a portion of the borrowings.

Credit Check	Must be clear.	
Independent Legal Advice	<p>The third-party co-borrower is required to take independent legal advice. The person giving the legal advice will usually approve the below loan structure on the basis that:</p> <p><i>The borrower is fast tracking part of the loan to achieve equity.</i> <i>The third-party co-borrower has a defined period before liability ceases.</i></p> <p>Any request to provide full funding on a long-term basis with the third-party co-borrower's property as collateral does not offer these benefits and is likely to be declined.</p>	
Life Insurance	The purchaser is recommended to have life cover for the total loan.	
Loan Structure	<p>Loan A 80% LVR 30 year term 5 years interest only available Borrower = Purchaser Security = New purchase</p>	<p>Loan B Balance of borrowings 5 year term Must be P&I Borrower = All parties Security = Third-party co-borrower's property (Max 80% LVR against this property)</p>
Servicing Assessment	<p>Uncommitted monthly income for both Loan A and Loan B must be met from the purchaser's income alone.</p> <p>The third-party co-borrower must be able to independently meet UMI requirements for Loan B without reliance upon the purchaser's income. Exceptions can be considered subject to other liquid assets held.</p>	
Valuation	Standard RV, QV and S&P criteria apply.	