

Date: 8 December 2023

Re: Living Expenses Policy changes

Effective Monday 11 December 2023, Heritage is making changes to our expenses policy to ensure our members have the capacity to service the loan now and into the future.

What is changing in policy?

The policy has substantial updates, however key changes include:

- a. Movement of HEM from geographic HEM to income-based HEM,
- b. Expense category table including clear direction to what is a discretionary expense and what is a HEM-comparable expense which is aligned to the HEM guidelines e.g. moving investment property expenses to non-HEM comparable,
- c. Verification of expenses will have a three-month statement requirement for high-risk attributes otherwise applicant declared will be accepted in other circumstances,
- d. Mandatory verification of select expenses which will continue post settlement,
- e. Review of internal accounts which includes direction and intent,
- f. Clear expectation and direction for conflicting information and amending living expenses, and
- g. Clarification of who is a dependant and the treatment of the associated expenses.
- h. Policy has been amended to enable the use of 90% of the rental income for servicing, regardless of the rental property type. There is no longer a separation of high density. All rental income will be used at 90%. Note – this is not applicable to commercial rental properties.
- i. Policy has been amended to require \$150 per week per applicant to be included as nominal board where the applicant is not living in the security property and their ongoing accommodation expenses are <\$150pw. Exceptions to this are where the applicant is living in their freehold property or where the accommodation is provided by the employer.

What is the pipeline for the policy changes?

Due to the risk impact of these changes, no grace period for new lending will be applicable for this change.

Any application not conditionally approved or pre-approved by close of business Friday 8 December 2023 will be subject to the new assessment changes.

Any application which has been conditionally approved or pre-approved prior to COB Friday 8 December may proceed based on the policy applicable at the time of the conditional approval/pre-approval. If there are any material changes* to the application post conditional or AIP, the new policy will be applied.

**material changes are defined as "deterioration in the risk profile of the transaction"*

Who is available for support?

If you have a question regarding the policy change or the policy intent, please contact your BDM.

Full details will be available from Monday, 11 December 2023 on the Broker Website under Useful Resources > Mortgage Lending Policy.

Regards