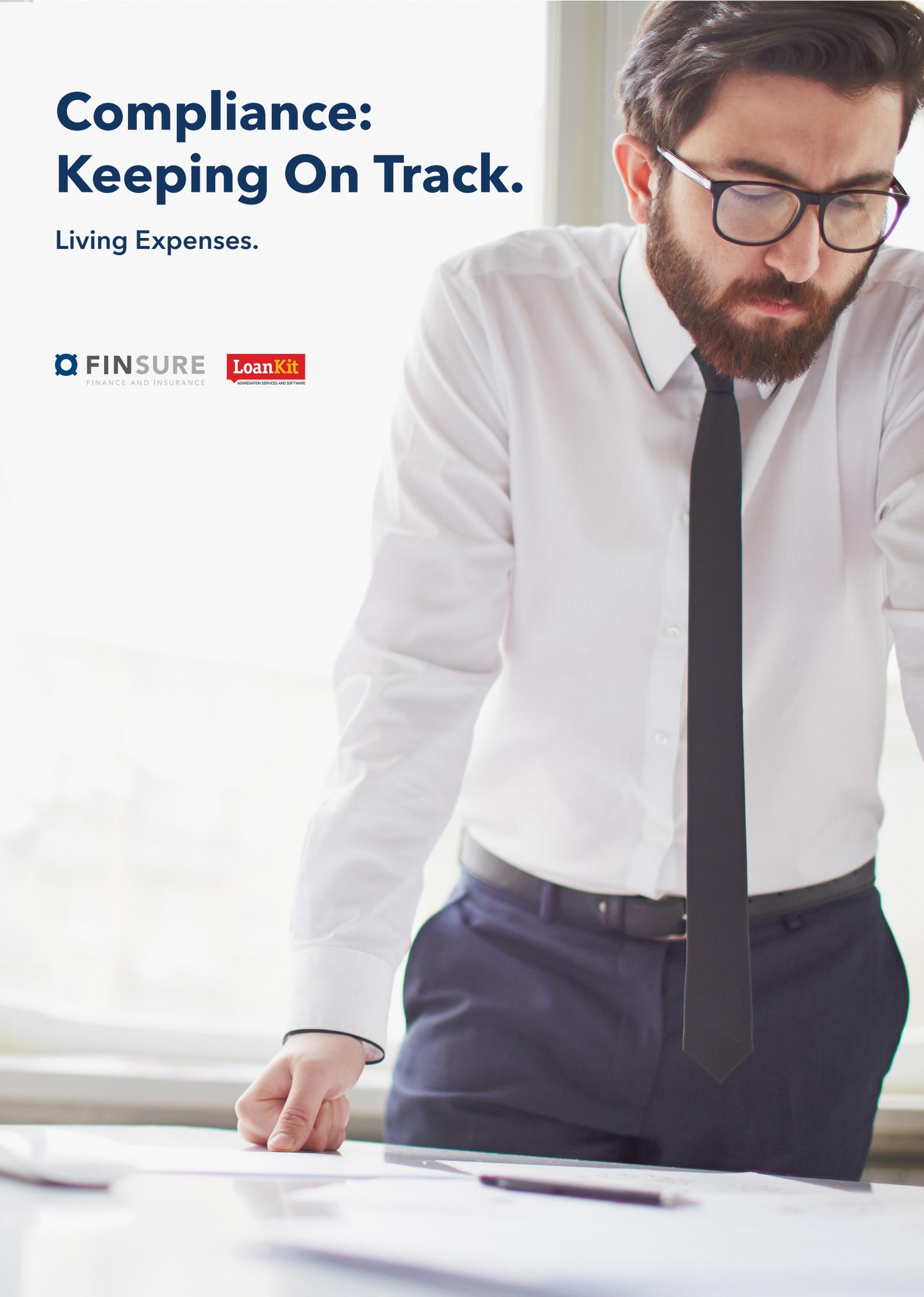


# Compliance: Keeping On Track.

Living Expenses.

 **FINSURE**  
FINANCE AND INSURANCE

 **LoanKit**  
AGGREGATION SERVICES AND SOFTWARE



# Living Expenses.

Recently, ASIC has highlighted the need for all brokers and lenders to accurately identify the true and correct living expenses of a customer. Traditionally the approach is to use benchmark (or 'indicative') figures however in ASIC's view, the lack of enquiry about actual expenses and the reliance on the HPI/HEM was inconsistent with responsible lending obligations imposed by the National Credit Act.

Brokers have an obligation to make reasonable enquiries about their customers' true financial situation including living expenses. Whilst some lenders allow a single figure to be provided for the servicing assessment this does not mitigate your responsibility to ensure that you have a breakdown on file and more importantly have this included with your application documents.

## **Expenses fall into three categories:**

1. Basic: the essential costs to live including, food, utilities, transport etc, items that a customer cannot easily cancel or change
2. Fixed Expenses: rent, child support, and the repayment of existing debts
3. Recurring or Discretionary expenses: Insurances (Life, Private Health etc), 2nd vehicle costs, entertainment, private school fees and child care expenses, gym fees etc

Reasonable steps to verify the information particularly in relation to Basic Expenses must also be taken. You can do this in three ways:

- by comparing their stated figure to the benchmark/indicative figure, and/or
- assess the living expenses against the customer's financial position. For example, if you are dealing with an applicant who has a \$100,000 net income with declared expenses \$1000/mth and liabilities of \$3,000/mth, realistically the customer should then have savings of \$48,000. If this is not case it is necessary to understand what the customer is spending their income on as it would not be reasonable to document a surplus of \$6,000/mth.
- review the customers bank statements (often the most reliable solution)

## **Inputting Living expenses into LoanKit**

Whilst it is essential to understand the customer's actual living expenses when calculating surplus income it is a requirement that the higher of either 'declared' or 'indicative' (benchmark) figures be entered in the Living Expenses section of the Preliminary Assessment Report. This provides additional reassurance that that the customer can afford the loan. Recurring and Discretionary must be added separately and in addition to Basic Expenses.

A 'Living Expenses Template' can be found in the Finsure Broker Portal and in LoanKit to assist you with the collection and documentation of Living Expenses. A new version of the Responsible Lending Manual has been released and is available in LoanKit; Living expenses are covered in greater detail in Section 2.2.6 Responsible Lending Manual.

In summary ASIC is expecting that all brokers make these inquiries into the customer's living expenses. Responsible lending obligations put the onus on you to ensure that your customer can meet their repayment obligations without substantial hardship.