CONFIDENCE FINANCE

HOME LOAN SPECIALISTS

Mr. G Stewart

Lending Report

Monday, 16 June 2014

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Please note this report is not a letter of offer or pre approval. This is an internal report created by Confidence Finance for initial preliminary purposes only. This report is a record of product recommendation to you. We do not accept any liability for any third party relying on any information contained in this report.

Recommendation Summary

At Confidence Finance we believe high quality information is essential to help you make good decisions. That's why we've created this report for you outlining our recommendations for your lending needs.

Your Requirements

- You are a first home buyer looking to purchase a new two bedroom unit in Liverpool, NSW.
- The purchase price is $400,000. You have approximately $50,000 cash savings that can be used as a deposit for the purchase.
- You are looking for a large bank lender with access to branch facilities and high quality customer service.
- You are looking to purchase investment properties in the medium future.

Our Loan Recommendation

We recommend Commonwealth Bank 2 year Fixed Rate Loan.

Loan Features

- 2 year fixed interest rate of 4.84 per cent.
- Total setup cost is $200.
- Annual fee is $395
- Offset available after fixed rate period.
- Commonwealth as your first lender allows you to borrow more for less in the future.

Why?

- Strong customer service, large bank lender, branch access.
- **Your total relative saving from our recommendation versus viable alternative options is approximately $54,000 over the life of the loan.**

Need to know

- As a first home buyer, stamp duty on this property is $0. You will also receive a $15,000 government rebate at settlement.
- Loan Mortgage Insurance is payable on this loan totaling $3,805 (86.3% Loan to Value Ratio (LVR)). This can be capitalized onto the loan.
- Using ~$40,000 of your own savings, and the government grant, your total loan amount will be $348,805.
- Your total upfront fees will equal approximately $500 ($200 upfront + $300 in government fees).
- Your monthly repayments during the fixed rate period equal to $1818.

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Your profile and property

Personal and financial profile

Below is a summary of the financial and employment status:

	Applicant One	Applicant Two
Name	G Stewart	N/A
Occupation	Graduate	
Employment Status	Full time	
Employment length	1 year	
Income	$75,000	
Expenses	Live at home, no credit card or other debts.	

Property information

You are looking to purchase a 2 bedroom unit. It is a brand new construction. Property is complete and ready. Valuation is unlikely to cause issues as a number of properties have been purchased in similar areas at higher prices. Market is rising.

Property 1 (Purchase)

Transaction: Owner Occupied
Location: NSW
Security: House

Value/ Purchase Price	$400,000	Purchase Stamp Duty	$0	Current Loan Balance	$0
		Transfer Fees	$209	Total Costs	$314
		Registration Fees	$104	Deposit	$0
		Lender Setup Fees	$0	Loan Requested	$345,000
		Client Legal Fees	$0	LVR	86.25%
		Discharge Cost	$0	**Loan with LMI**	**$348,800**

Funding position

The funding position below confirms that there are adequate funds available to complete the transaction.

By deploying your additional cash reserves into the loan, you have the potential to reduce the LVR by over 2 per cent.

Funds Required		**Funds Available**	
Purchase Amount	$400,000	Loan Sought	$348,805
Refinance Amount	$0	FHOG	$15,000
Stamp Duty – Transfer of Land	$0	Sale Proceeds (Gross)	$0
Titles Office – Mortgage	$104	**Other Funds Available** Own Savings:	$50,000
Titles Office – Transfer of Land	$209		
Establishment Fee	$0		
Legal Costs	$0		
Discharge Cost	$0	**Debts to Repay**	
Lenders Mortgage Insurance	$3,805		
Other/Sundries	$0		
Sub Total Funds Required	$404,119	Total Lend	$348,805
Deposit already paid	- $0	Total Security	$400,000
		Loan Value Ratio	86.25% (87.20% inc LMI)
Total Funds Required	$404,119	**Total Funds Available**	$413,805

Funds Surplus: $9,686

Note there is one lender that offer no LMI loans at 85% LVR. However, they have strict employment criteria which would reduce the likelihood of completing the deal. Furthermore, this lender does not have the same accessibility as Commonwealth Bank and falls outside the scope of your requirements.

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Your Borrowing capacity

We assess that you could comfortably borrow $500,000 for this purchase. Therefore your ability to service the loan is not an issue for your requirements.

Lenders

Lender	Maximum Amount	Assessment Rate	Surplus Income (monthly)
Macqaurie	$550,690	7.00%	$3,664
NAB	$530,983	7.40%	$3,676
St George	$515,148	7.58%	$3,630
Commonwealth	**$505,070**	**7.40%**	**$3,497**
Westpac Bank	$493,029	6.14%	$3,000
CitiBank	$493,024	8.13%	$3,662

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Product recommendation

We recommend *Commonwealth Bank's 2 year fixed full doc home loan* for your requirements.

You have indicated a strong preference for a large bank lender and are not looking to access/amend loan details for the foreseeable future.

In the current lending environment, most lenders have cheaper fixed rates compared to their variable offerings. This is largely a result of a reduction in the price of credit in international capital markets, driving the banks funding costs down to your benefit (See Factsheet: The Lending Environment).

For this reason, we have recommended that you take advantage of this dynamic by locking in a low 4.84% fixed rate for the next two years.

When compared to the alternatives (see next page), we have recommended Commonwealth Bank because they:

- Meet your lending requirements.
- Are the cheapest available option.
- Suit your medium/long term wealth creation plan.
- Provide you the support you are looking for from your lender.

More details on the product is available below. For a complete assessment, refer to Appendix A.

Lender:	Commonwealth Bank
Rate:	4.84 per cent
Product:	2 Year Fixed Full Doc
Benefits:	▪ Full featured loan – 100% offset after fixed rate period and redraw. ▪ Lowest fixed rate for a Big 4 bank. ▪ Strong accessibility and reputation for customer service. ▪ Good lender for effective long term loan structuring. ▪ Phone/Internet banking. ▪ Up to a $54,000 saving over the life of the loan relative to other comparable lenders.

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Alternative Options considered

Based on the information you have provided to us, we have selected the following list of products as being suitable for your requirements.

Product Provider	Product Name	Interest Rate	Total Setup Costs	Ongoing Fees	Total Cost of Loan
Commonwealth	2 Year Fixed	4.84% 2 years 5.10% 28 years	$200	(monthly) $395 (annual)	$339,182
Westpac	2 Year Fixed	5.04% 2 years 5.98% 28 years	$600	$8 (monthly) $0 (annual)	$393,338
ANZ	2 Year Fixed	4.99% 2 years 5.88% 28 years	$600	$10 (monthly) (annual)	$386,551
NAB	2 Year Fixed	4.94% 2 years 5.88% 28 years	$600	$8 (monthly) (annual)	$385,391
St George	2 Year Fixed	4.79% 2 years 5.29% 28 year	$100	(monthly) $395 (annual)	$351,586

Of the suitable products listed above, we have identified the Commonwealth Bank's Fixed Rate Home Loan as most suitable to your requirements.

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Lenders Mortgage Insurance

Lender's Mortgage Insurance is an insurance policy obtained by the lender, but paid for by the borrower. It is for the protection of the lender, not the borrower.

The LMI policy protects the lender against any losses where:

- the borrower default on their loan;
- the lender sells the security property; and
- there are not adequate funds to cover the outstanding loan and any fees and charges that may have accrued.

LMI is usually taken by the lender when the value of the loan requested exceeds 80% of the value of the security property. The LMI premium is based upon a sliding scale depending upon the LVR - the higher the LVR, the higher the premium.

The cost of your LMI is approximately $3,800. This is the lowest cost LMI premium from the lender suite of options provided to you (others range from $3,900 to $5,200).

Commonwealth Bank will allow you to add the LMI premium to the loan amount. This will cost approximately $3.50 per week.

LMI will normally not cover penalty interest, early repayment penalties, LMI premium, physical damage to property and fees and charges not directly related to costs incurred by the lender in order to recover the debt.

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Summary of your loan features

Your recommended loan structure has two key features: 2 year fixed interest period and principle + interest repayments.

Fixed term loans

A Fixed Rate Loan is a loan where the interest rate is guaranteed to remain the same during an initial term, regardless of what may occur in the market with variable rate loans.

Your interest rate will remain fixed at 4.84% for two years.

Fixed Rate term loans normally revert to the Standard Variable Rate (SVR) after the Fixed Rate term has expired. Your loan facility has been established for 30 year loan term with the first 2 years fixed. **From year 3, you will receive a 0.85% discount from Commonwealth Bank's SVR. Commonwealth Bank's current SVR is 5.90%.**

Borrowers who take fixed rate loans need to understand that they are committing to a contract with the lending institution for the fixed rate term, and that should the contract be broken or the term changed, the Lender may charge the borrower substantial fees to cover the costs of breaking the contract.

These 'break costs' can be very expensive. The break costs are determined by many factors, such as the term remaining, the current interest rate environment and the amount of the outstanding balance. They cannot be estimated when the contract is taken out.

In addition to the potentially prohibitive break costs, Commonwealth Bank also restrict the amount of extra repayments that can be made on the loan during the fixed rate period.

Principle + Interest repayments

You have the option to repay the interest component of your loan only. However, given that this is for your personal private use and that you have no other use for your surplus funds, it makes sense to pay down your non-deductible debt (personal mortgage).

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Your Lending Plan

You have indicated that you are considering purchasing investment properties in approximately 3-5 years time.

As a rough indication for your borrowing capacity, you will be able to borrow approximately $370,000 - $400,000 for your next investment. This takes into account a number of assumptions:

- your income levels remain constant;
- serviceability assessments remain constant;
- interest rates do not change; and
- your investment property has a 4% rental yield.

Of course the lending environment and your personal situation can change significantly over that period of time. Furthermore, there are a number of techniques you could use to maximize your borrowing power in the future (read Factsheet: Borrow more for less).

Depending on your specific requirements, we would recommend similar lenders to this assessment to ensure you could maximize your future borrowing power further.

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Disclosures

Remuneration

Recipients of Remuneration or Benefits as a result of our product recommendations		
	Accredited Mortgage Consultant (AMC)	**Total Payable by Lending Institution**
Monetary Benefits		
Remuneration paid to		
Upfront Commission		0.40% - 0.70% of the loan amount
Trailing Commission		0 - 0.25% of the outstanding balance
Non – Monetary Benefits		
Incentive Scheme	Nil	
Any other benefits directly linked to the sale of the product	Nil	

Privacy

Confidence Finance are committed to respecting your privacy at all times. We are committed to abide by the National Privacy Principles for the protection of your personal information, as set out in the Privacy Act and other relevant legislation.

Confidence Finance act as an intermediary between you and lenders to source suitable loans for our clients. In conducting this activity, personal and financial information is required to make our recommendations. We can provide you access to the information we hold at your request.

We may at times use your contact details to provide you information about our products and specials. Should you wish to not receive this information, please contact us and we will remove you for our database.

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Preparation of this report

In preparing this Product Recommendation we have relied on information that you have given to us. We take no responsibility for this recommendation if the information provided is incorrect or inaccurate.

If you believe that any aspect of your situation has been overlooked or is not correctly represented, it is your responsibility to bring it to our attention before acting on our recommendations.

This recommendation may only be considered to be current as at the time of production. The nature of the recommendation can be altered should interest rates and fees change at any point after the production of this document.

Once you have selected an appropriate product and an application has been submitted to a lending institution, the lending institution will provide you a loan agreement or contract, which will detail all the terms and conditions associated with the product that you have selected.

Not taxation advice

This product recommendation does not constitute or contain taxation advice.

Whilst every effort has been made to include relevant taxation considerations, the adviser with whom you have dealt is not a licensed taxation agent.

Any taxation considerations contained in this document are intended as a guide only. If you require taxation advice we strongly recommend that you seek independent taxation advice from a licensed taxation agent.

Appendix A - Product comparison summary

Lender	Commonwealth Bank	St George	NAB	ANZ	Westpac
Product Name	MAV (Special Discount) 2 Year Fixed Full Doc	Advantage Package - 2 Year Fixed	Tailored Home Loan - 2 Year Fixed	2 Year Fixed Rate Full Doc	2 Year Fixed Option Full Doc
Loan Amount	$345,000	$345,000	$345,000	$345,000	$345,000
Interest Rate(s)	4.84% 2 yrs (fixed) 5.10% 28 yrs (var)	4.79% 2 yrs (fixed) 5.29% 28 yrs (var)	4.94% 2 yrs (fixed) 5.88% 28 yrs (var)	4.99% 2 yrs (fixed) 5.88% 28 yrs (var)	5.04% 2 yrs (fixed) 5.98% 28 yrs (var)
Repayments	$1,818/month 2 yrs $1,871/month 28 yrs	$1,808/month 2 yrs $1,908/month 28 yrs	$1,839/month 2 yrs $2,032/month 28 yrs	$1,850/month 2 yrs $2,033/month 28 yrs	$1,860/month 2 yrs $2,054/month 28 yrs
Features	Extra Repay: A maximum of $10,000 in any year can be made in additional repayments. You will not be able to redraw any additional repayments during the fixed rate period. Interest Only	Extra Repay: Principal reductions of up to $10,000 may be made per 12 months during the fixed rate period without incurring break costs. Interest Only: Minimum term 1 year maximum term 15 years. Partial Offset: Partial Offset is available during the fixed rate period for principal and interest and interest only loans. Redraw: Available during the fixed rate period to a maximum of $10,000 p.a. or	Extra Repay: Unlimited when the rate is variable. Up to $20,000 during a fixed rate period without economic costs. Over $20,000 you may be charged economic costs Interest Only: Up to 5 years interest only (in arrears) for investors and owner-occupiers and interest only (in advance) for investors. Redraw: Minimum $2000.Available at the end of the fixed rate period (i.e when the rate is variable)	Construction: Yes - must be over 4 month period. Extra Repay: Additional repayments up to a set tolerance amount (5% of the loan amount at the start of the current fixed rate term up to a max. $5,000) each year of the fixed rate interest period. Interest Only: Maximum 10 years. Redraw: Yes, once loan reverts to variable rate - redraw allows you to access any additional	Construction Extra Repay: Extra repayment allowable up to a threshold of $30,000 (cumulative) without costs or fees applying. Any prepayment greater than the threshold may incur break costs Interest Only

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		the amount of additional funds paid within that 12 month period (whichever is the lesser). Redraw Fee : $25 via manual withdrawal/$10 via internet/phone banking.		loan payments you have made (note any principal reductions made during any fixed rate, construction or progressively drawn period will not be available to be redrawn).	
App Fee	Settlement: $200	Settlement: $100	Application: $600	Application: $600	Application: $600
Monthly Fee	$0	$0	$8	$10	$8
Annual Fee	$395	$395	$0	$0	$0
Discharge Fees	$350:	$350:			$350:
Total Interest	$327,132	$339,636	$381,911	$382,351	$389,858
Total Monthly Fees	$0	$0	$2,880	$3,600	$2,880
Total Annual Fees	$11,850	$11,850	$0	$0	$0
Total Setup Costs	$200	$100	$600	$600	$600
Loan Term	30yrs	30yrs	30yrs	30yrs	30yrs
Total Loan Cost	$339,182	$351,586	$385,391	$386,551	$393,338
Relative Saving	$54,156	$41,752	$7,947	$6,787	$0

Appendix B: Other Loan Features

Following the 2 year fixed rate period, your loan will revert to a standard variable rate loan. This will be a full feature loan with an offset, redraw and a line of credit facility available to you. These features are explained for your information below.

Variable rate loans

Variable rate loans have movements in interest rates in line with changes in the RBA's cash rate. They usually come in Standard or Basic form.

These two loan types are effectively the same in the way they work. The only differences are in the interest rate charged, and the features available. A standard variable loan will usually have a full range of features, whilst a basic variable loan will have a more restricted range.

A summary of the usual differences is set out below. Please note that this is a general guide, and that differences between lenders may arise with specific products.

Feature	Standard Variable	Basic Variable
Redraw	Yes	Yes
Extra Repayments	Yes	Yes
Discounts available for higher loan amounts	Yes	No
Mortgage Offset Account	Yes	No
Line of Credit option	Yes	No
Ability to change to fixed rate	Yes	No

Interest only payments

Most Lenders will offer borrowers the ability to make interest only payments on their loan for a set period. That means that the monthly repayment has no principal reduction component, and the

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outstanding loan balance will remain unchanged during the term of the interest only period.

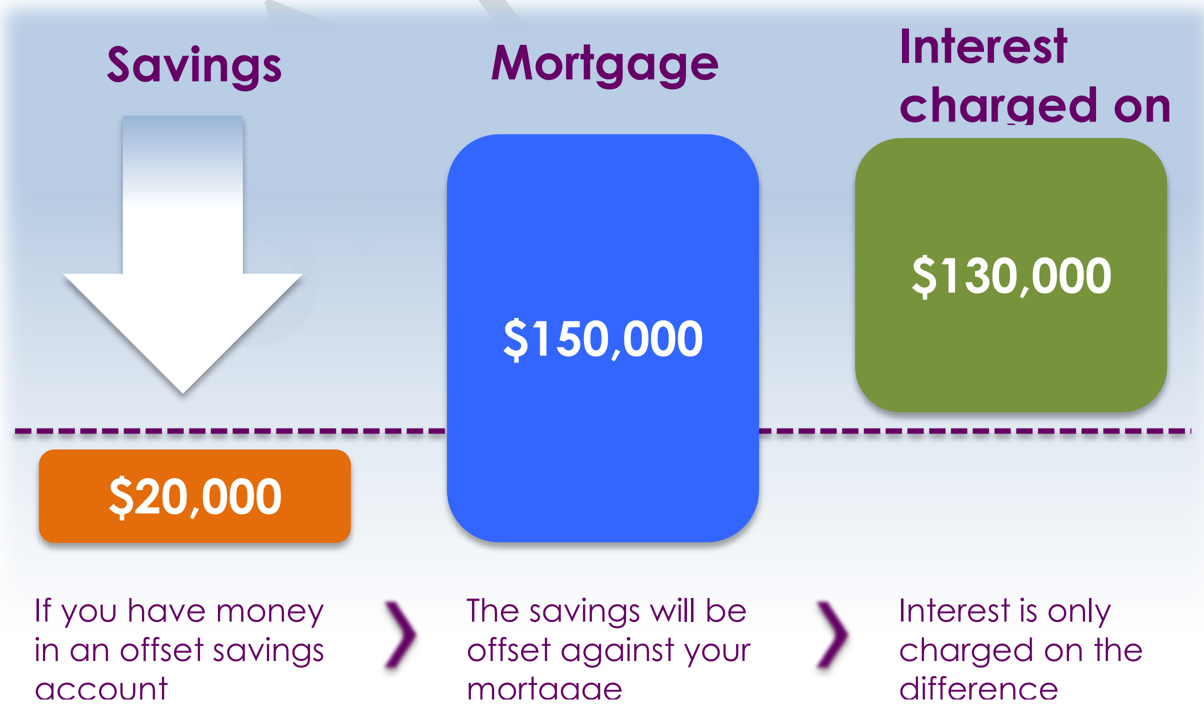
Generally the terms offered by the Lenders are between 1 –5 years but some lenders may offer up to 10 years. After the initial interest only period, the loan will revert to the normal amortised repayments over the remaining term of the loan.

For example, loan with a 30 year term may have a 5 year interest only term, followed by a 25 year principal and interest term.

Offset account

A Mortgage Offset account allows the borrower to have any savings or credit balances in their transaction account to be offset against their loan facility when interest is calculated. Offset accounts are offered by most Lenders which offer normal transaction type accounts.

Most Lenders will offer '100%' offset, which means that any credit balance in the account will offset the outstanding balance of the loan facility. The mortgage offset account itself does not earn any interest. However, benefit in that the interest on the loan charged is calculated on the net outstanding balance, after reducing the outstanding balance by the amount deposited in the offset account.



Redraw facility

Loan redraw feature allows a borrower to withdraw any additional funds that they have paid of their loan facility over and above the normal minimum repayment.

For example, if a borrower has been paying an additional $500 per month off their loan, after 12 months, the borrower would be able to redraw $6,000.

The redrawn funds can be used for any purpose. Lenders may charge a fee to redraw extra payments, with costs typically varying from nil to $50 per redraw.

The difference between the offset and redraw facility is mainly a tax implication. The offset facility may offer you the ability to turn your property into an investment property into the future and maintain tax deductibility.

Line of credit and home equity loans

A line of credit loan allows the borrower to establish a credit or facility limit, and then draw from and pay down the loan without restriction. The borrower has the ability to use the entire limit at any time and does not have to comply with an amortised repayment schedule.

Most Lenders who offer these loans require that the monthly interest charge be the minimum payment required to maintain the account. That means that the borrower can determine, how much if any, principal repayment they wish to make.

The credit or facility limit is normally determined by two factors:

- borrowers ability to repay, and
- level of equity in the property being offered as security.

These facilities have the benefits of allowing the borrower to utilise as much or as little of the credit facility for whatever time frame they require, while still only being charged interest for the outstanding balance. The facilities even allow for the balance to move from a credit balance to a debit balance. Most Lenders will also allow for the borrower to operate their loan account as their transaction accounts, functioning as an 'all in one' account.

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