

MILLBROOK MORTGAGE MANAGEMENT LTD

(Millbrook)

LENDING & CREDIT POLICY

Millbrook Mortgage Management Ltd (ACN 123 219 732) ACL 335001

Holder of Australian Financial Services Licence 335001 to operate the Millbrook Mortgage Fund (ARSN 125 042 480)

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GENERAL

Applications

All applications must be on a Millbrook loan application form, signed by the borrower(s) and ideally include the provision of satisfactory identification, although ID can be obtained when lending documents are executed if this facilitates quicker consideration of the proposal.

Interest Rates

The Company offers a range of interest rates dependent upon perceived credit risk. The range of interest rates is set by Millbrook's Directors from time to time and may be either fixed or variable.

The interest rate applied to loans is driven by market conditions and varies from time to time.

Approvals – Credit Committee Lending Authority

All Credit Committee decisions are subject to majority approval. The Credit Committee comprises David Lyall plus another 2 persons as approved by the Board from time to time. In the absence of any one of these 3 persons for more than 24 hours the remaining Credit Committee members may unanimously approve any proposal that falls within the Company's Credit Policy.

Credit Committee members may approve as follows:

- Mr Lyall may individually approve any loan application of \$500,000 or less that falls within the Company's lending policy
- Any two Credit Committee members jointly may approve any loan application of \$2M or less that falls within the Company's lending policy
- Board approval is required for lending transactions falling outside the above guidelines.

Notification of loan approval

All approvals are to be notified in writing in the format held on the system.

Verification of Conditions of Approval

Any Director can verify loan approval conditions as having been met. Should any Credit Committee member note any condition as requiring that member's verification of the approval condition then another member cannot be substituted unless the Credit Committee member required to approve the condition is unavailable for more than 1 working day.

Checklists

Prior to settlement a "Loan Summary Checklist" and "Settlement Checklist" are completed for each loan to ensure compliance with internal policy and procedures together with requirements mandated by the NCCP Act (in the case of regulated loans), Austrac (AML/CTF) and the Privacy Act. These checklists and the associated documentation are then also reviewed by the internal Compliance Committee quarterly and external Auditors annually.

Non-preferred applicants

While the following are not necessary excluded as borrowers, applicants falling into these categories are to receive more stringent appraisal:

- New ventures (businesses with less than 24 months trading results).
- Entrepreneurial/specialised businesses.
- Persons with a high sales and marketing content in their profession (eg. real estate agents, motor vehicle sales persons, insurance agents etc).
- Food industry – takeaway shops, restaurants.
- Health and Beauty industry (hairdressers, beauty shops, gymnasiums).
- Transport operators.
- Primary producers and businesses reliant upon the rural sector.
- Hotels, night clubs and bars.
- Development and/or Construction industry.

High risk applicants

- Any applicant having an on-going history of credit problems or a previous and recent bankruptcy.
- Primary producers or contractors servicing primary producers not able to evidence historical profitability and/or seeking working capital. This class of applicant should not be considered in areas known to have been drought affected in the past 3 years.
- Applicants exhibiting lengthy recent periods of unemployment (excluding persons who are or have been on some form of disability payment as a result of injury or the like and can provide evidence of their fitness for work).
- Non-resident borrowers

Insurance:

Evidence of cover noting Millbrook's interest is required for all security.

Upon maturity of insurance policies for items forming Millbrook's security, evidence of renewal noting our interest is to be obtained in all cases.

Security for loans

Registered mortgages over real property in the Commonwealth of Australia.

Maximum Loan Amount

There is no maximum amount but loans over \$2.0M can only be considered where an appropriate pool of investors can be identified.

Minimum Loan Amount

The minimum loan amount is \$250,000 unless a compensating establishment fee is charged.

Term

Usually 12 months or less but longer terms up to 3 years may be considered subject to availability of an appropriate pool of investors.

Repayment

Monthly interest only either in advance for the term of the loan or monthly in arrears.

All loan repayments are to be made by direct debit only against a signed DDR authority provided as part of all new loan documentation.

Location of Security

Property located in metropolitan Melbourne is preferred but consideration will be given to funding property in other state and territory capitals or regional centres with population of more than 50,000.

Loan to Value Ratios

	Maximum	But usually
• Residential property in populous area	80%	65%
• Residential vacant land with very strong resale market	75%	50%
• Other Rural – lifestyle properties, hobby farms	75%	50%
• Commercial properties (metropolitan or provincial cities only).	75%	65%
• Industrial properties (metropolitan and provincial cities only)	75%	65%
• Vacant land held for development	65%	50%

Fees

Establishment Fee		\$2,000 minimum or 1% to 2% of the loan.
Documentation Fee		As quoted by Millbrook's solicitors
Extension or variation fee		\$1,000 minimum or 50% of the original establishment fee (this may be varied by negotiation)
Early payout or partial discharge		As negotiated (also see Early Repayment below)
PPSR (REVS and VSR)		\$50 per item
ASIC Search		\$50 each
Administration fees -	Notice to Terminate	\$500
	Repossession Order	\$500
	Insurance Default Fee	\$250
	Payment dishonour fee	\$50
	Late payment Admin fee	\$50 (unless dishonour fee charged)

Note: GST must also be collected in addition to the above where required.

Early Repayment

Repayment of principal outside of the terms and conditions of the facility is to be subject to the recovery of the Early Termination Amount shown on the schedule reduced proportionally for the time the contract has been in force, plus 2 months interest on the original advance at the higher rate of interest. If the repayment is only a partial repayment then the early repayment fee as per the foregoing sentence is to be reduced by the proportion the principal reduction bears to the original advance.

Finance Brokers

Applications can be accepted from any finance broker, unless they are considered unreliable or unprofessional.

The maximum brokerage paid by the Company varies from time to time as approved by Millbrook's Directors.

Valuers

Valuations of security offered must be carried out by a panel valuer holding appropriate PI cover. In respect of real estate valuations, in areas not covered by a panel valuer, consideration must be given to either obtaining the closest panel valuer to attend or having a new valuer included on our panel.

Valuation reports for mortgage advances must be:

- by a panel valuer,
- instructed in writing by Millbrook,
- contain market and insurable valuations

Solicitors

Millbrook only uses solicitors from a panel which has been approved by the Board to act for the Company.

LOANS REGULATED BY THE NCCP

Millbrook must adhere to the requirements of the NCCP Act when assessing and processing consumer loan applications. All personnel have access to a copy of the Act itself plus the explanatory notes and ASIC Regulatory Guides. There are also further requirements under the “Responsible Lending” provisions (RG 209) to ensure that Millbrook assesses and provides appropriate products for consumer applicants and that the applicants in turn meet the assessment criteria set out in this Policy.

Our completed Loan Application form and Privacy Act Authority together with the applicant’s financial information should provide sufficient information to assess whether a loan application:

- 1) is potentially subject to the provisions of the NCCP;
- 2) not unsuitable for the applicant in terms of RG 209 {c} 209.48 onwards;
- 3) is suitable for Millbrook’s investors; and
- 4) meets Millbrook’s internal policy requirements.

Assessment process:

While every application is different and must be assessed on its merits, the following checks (where possible and/or appropriate) should be undertaken on every borrower/guarantor for all transactions.

- Credit reporting agency report on all borrowers, guarantors and related parties.
- Bankruptcy search

The balance of acceptance procedure is largely subjective, however the applicant should -

- Be able to evidence serviceability either by PAYG slips for those employed and for self-employed - historical financial statements or believable projections attested to by the Applicant’s accountant.
- Where an applicant has involvement with several related entities then the financial position of the group should be assessed – not just the borrowing entity in isolation.
- In the case of new ventures applicants should have experience in their chosen field and historical income should evidence an appropriate work ethic.
- Have personal or business assets to fall back on in the event of unforeseen liquidity issues.

Other checks that may be deemed necessary:-

- Perusal of BAS together with bank trading account and loan statements for the last 6 months to ascertain conduct and/or claimed turnover. In the past this process has uncovered instances of major gambling expenses (i.e. numerous ATM drawings from licensed clubs etc).

Financial information:

With all loan applications the borrowers are required to provide evidence of their cash flow and ability to service the proposed commitment. The minimum requirement (excluding NCCP loans) could take the form of a statement from the applicant of their financial position and disposable income. Other information that may be requested depending on the current monthly income and expenses together with:

- Last 6 months bank statements.
- Last 12 months BAS.
- Last 6 months home loan statements.

The bank statements should be scrutinised for dishonours, suspicious cash withdrawals (gaming), and the turnover compared with the applicant's estimate.

Other considerations with Code loan applications:

1. Provision of other forms of income to compensate for deficiencies in an applicant being unable to evidence appropriate cash flow (ie cash economy).
2. Borrowers and/or guarantors are to have no material credit bureau defaults.
3. Guarantors who could be considered as facing material hardship were their guarantee to be called on are unacceptable.

Serviceability Calculator

Once all the financial information is to hand from an applicant providing verified income and outgo the figures must be inputted into the serviceability calculator held on the system to calculate the amount available for the proposed loan. There is a minimum ratio prescribed which must be met for the loan to proceed.

Responsible lending under the NCCP

The NCCP provides that:

- a credit assistance provider (such as Millbrook) must, after making reasonable inquiries and taking reasonable steps to verify information, make a "preliminary assessment" about whether the consumer's contract or changes to the consumer's contract will be not "unsuitable", and
- a credit provider must, after making reasonable inquiries and taking reasonable steps to verify information, make a "final assessment" about whether the consumer's contract or changes to the consumer's contract will be not "unsuitable".

A loan will be not unsuitable if:

- it meets the consumer's requirements and objectives, and
- the consumer has the capacity to repay the loan without experiencing substantial hardship.

Millbrook needs to make “reasonable inquiries”

The responsible lending obligations require reasonable inquiries to be made about the consumer’s financial situation and their requirements and objectives. In Regulatory Guide 209 (RG 209), the Australian Securities and Investments Commission (ASIC) has provided some guidance on, and examples of, the extent of the inquiries an FSP should make when assessing a consumer’s application for credit.

Consumer’s financial situation

ASIC suggests inquiries about the following matters, to assess the consumer’s financial position, would be included in reasonable inquiries (see RG 209, page 12):

- the consumer’s amount and source of income, including the length and nature of their employment
- the consumer’s fixed expenses, such as rent, repayments to other loans/debts, child support, insurance
- the consumer’s variable expenses
- any existing debts that are to be repaid from the loan
- the consumer’s credit history
- the consumer’s age and number of dependants
- the consumer’s assets
- reasonably foreseeable changes, such as the end of a honeymoon period on a loan, impending retirement, or the end of seasonal employment
- geographical factors, such as remoteness (which may increase expenses)

Consumer’s requirements and objectives

ASIC has provided guidance (see RG209 page 13) about what reasonable inquiries about a consumer’s requirements and objectives could include. These are:

- the amount of credit needed or the maximum amount sought
- the timeframe for which it is required
- the purpose and benefit sought, and
- whether the consumer seeks particular product features or flexibility, and understands the costs of these features and any additional risks.

A consumer’s loan must meet their requirements and objectives. By following the fore-going points Millbrook will ensure that Compliance with the NCCP Act will be adhered to and all officers must ensure sufficient, verifiable information on an applicant is held to meet these requirements and a Suitability Assessment Form is to be completed to list/assess and confirm same prior to final approval and settlement.

Financial Hardship (and loans under the NCCP), {also refer to Collection Procedures}

While neither financial hardship or substantial hardship are clearly defined in the NCCP Act for consumers – refer RG 209.59 - a lender must ensure that there is sufficient income available after allowing for the servicing of financial commitments including the proposed loan and for normal living expenses. Our “Serviceability Calculator” does provide for this requirement.

However, in the matter of a defaulting consumer code loan we must provide by law for the provision of extra time or negotiate a period that allows a borrower to “catch up” or make alternate arrangements to bring their loan back into order. Any situations such as this must be referred to a Director or Credit Committee member for assessment and a response to the borrower.

Revised 5 July 2018

Complaints by borrowers

Millbrook is a member of the Financial Ombudsman Service Ltd (“FOS”) for investors and borrowers (under its Australian Credit Licence).

Complaints must firstly be dealt with internally and if unresolved the borrower may then refer the complaint to FOS for resolution under the Terms of Reference applicable for borrowers.

Documentation of Regulated Mortgages

Documentation for regulated loans must be prepared by our solicitors and certified by them as meeting the requirements of the legislation.

LOANS NOT SUBJECT TO NCCP

Assessment process

While every application is different and must be assessed on its merits, the following checks (where possible and/or appropriate) should be undertaken on every borrower/guarantor for all transactions.

- Recognised credit reporting agency report on all borrowers, guarantors and related parties.
- Bankruptcy search on all borrowers and guarantors

The balance of acceptance procedure is largely subjective, however the applicant should be able to evidence serviceability by provision of historical financial statements or believable projections attested to by the Applicant's accountant.

In the case of refinance proposals, perusal of loan statements for the last 6 months to ascertain conduct.

COLLECTION PROCEDURES

General

From time to time there will be loans that fall into arrears and it is essential that prompt action is taken to protect the investors in the Fund.

Initially telephone contact is to be made with the borrowers and an opportunity provided to arrange for the default issues (payment; insurance etc) to be rectified. All action is to be recorded as file notes each time contact is made.

Should the borrowers be unable or unwilling to comply/rectify the arrears, it is imperative that further prompt action is taken.

Default Notices are to be promptly forwarded to all borrowers/mortgagors and guarantors at the addresses nominated, each party is to receive separate notices to ensure all parties are informed of the state of the account and their obligations.

Should the default not be rectified within the term specified, usually seven days from the date of the notice (unless otherwise agreed), then the account is to be terminated, fees charged and the matter referred to the Company's solicitors.

Financial Hardship (NCCP)

While financial hardship is not clearly defined in the NCCP Act, RG 209.59 requires a lender to ensure that there is sufficient income available after allowing for the servicing of financial commitments including the proposed loan, for normal living expenses. Our "Serviceability Calculator" provides for this requirement.

However, in the matter of a defaulting consumer code loan, by law, we must provide for the provision of extra time or negotiate a period that allows a borrower to "catch up" or make alternate arrangements to bring their loan back into order. Any situations such as this must be referred to a Director or Credit Committee member for assessment and a response to the borrower.

Security

Once Termination Notices are sent it is imperative action is taken to protect security held for the loan.

Once Default Notices and a Demand for full payment of debt plus interest, fees and costs have been served on the borrower under the registered mortgage it is imperative that we continue our legal recovery action to protect our investors interest.

At any time during this process the borrower may rectify the default (with our agreement), refinance or voluntarily place the security property on the market for sale. If a sale is the option they choose they must provide a copy of the Real Estate Agents authority and also provide all marketing details to the mortgagee so Millbrook can verify all the facts and ensure the sale is genuine and not a delaying tactic. Our preference is that borrowers actively seek ways to remedy the default promptly.

Collection Process

1. Banking records are reviewed for dishonoured DDR's which incur the appropriate service fee.
2. Borrowers are contacted same day by telephone to advise of dishonour and make arrangements to rectify same. Borrowers not able to be contacted by telephone are to be written to same day as dishonour received. All such contact (actual or attempted) and subsequent recovery action is to be recorded and all correspondence permanently saved electronically.
3. Any account, once in arrears by 7 days (unless under an agreed repayment arrangement) and any borrowers who breach a repayment arrangement are to receive a First & Final Notice as appropriate for the type of loan in question.
4. Upon expiry of 7 day period stipulated in First and Final Notice the responsible collection officer is to again try and telephone the borrower (leaving a message to call back if appropriate). If unable to leave a message and borrower cannot be contacted a further letter advising formal termination is to be forwarded and the account charged with a Termination Fee. If a message is left and the borrower fails to respond appropriately within 24 hours the account is to be formally terminated.

5. Upon termination:

Millbrook's solicitors are to be instructed to commence formal recovery action against the borrower.

6. Following termination:

- The account is to be reviewed weekly to determine that recovery action is proceeding at maximum speed.
 - An additional monthly review is to be conducted by the Collection Officer and a record of the collection history to be recorded in his monthly Arrears Report to the Directors.
 - The Executive Director is to review the Collection Officer's Arrears Report monthly and provide comment and direction as considered necessary.
 - At each Board Meeting the full Board reviews and discussed the most recent Arrears Report.
7. The Company's policy is to pursue all defaulting borrowers to the fullest extent, however it is realised that the costs of so doing may outweigh the likely recovery. Where collection staff believes it is not cost effective to pursue formal recovery they must seek a Directors approval to discontinue action. The cost effectiveness of all current recovery actions is considered separately by the Collection Officer in their monthly report to the Directors, who will confirm or modify his proposed course of action in each case as deemed appropriate.

8. Real Estate Disposal Procedures.

- Vacant possession is to be sought at the earliest possible opportunity.
- A selling agent is to be identified and a written outline provided which addresses probable sales price, issues that might impact on sale, a marketing program and costs.
- A panel valuer should be instructed to assess the property to confirm the agent's view of value and assist establish the reserve for the sale/auction.
- Reasonable marketing is to be undertaken and the normal method of sale would be public auction, however in some instances an Expression of Interest campaign may be warranted.
- Where we hold a second mortgage we are to liaise with the first mortgagee on a regular basis. If the first mortgagee is in possession we must ensure we do whatever is reasonably necessary to protect our interest – including consideration of buying out the first mortgage if considered appropriate. Where the first mortgagee is in possession we must liaise with them at least monthly to keep abreast of any developments that might impact on our recovery.

It should be clearly understood that any sale process must have an appropriate exposure period to elicit the best price available at the time of the sale and act in good faith to do so (ie: the best available price in terms of the ABIO bulletin no 38 – is being treated as being equivalent to market value of the property at the time of sale. However, we also must take into consideration holding costs - meaning the longer a sale is delayed the worse the loan position may get and potentially a larger loss to all parties when a sale finally occurs.

Marketing and advertising ensuring appropriate exposure of any property for sale is to be undertaken either directly by Millbrook or through its agents. Regular contact with our agents and staying informed of market conditions is a part of the Collection function.

Refer to a copy of ABIO (via FOS) bulletin number 38 from June 2013 as to confirmation of the mortgagee property sale process that confirms the fore-going regarding property sales.