

Monthly Living Expense (MLE) Conversation Guide

May 2021



Importance of getting MLE Conversations Right

**Our Purpose:
To improve the financial wellbeing of our customers and communities.**

The key – having appropriate conversations with probing questions that provide a realistic depiction of the customers financial situation. When assisting customers with their home buying needs, we **MUST** ensure that we assess their ability to service the loan **AND** maintain a reasonable standard of living, making reasonable enquiries to verify the financial situation of customers.



What is HEM ?

The Household Expenditure Measure (HEM) is a benchmark of minimum living costs, net-of-housing to sustain a basic standard of living for safety and survival aligned to societal and economic factors.

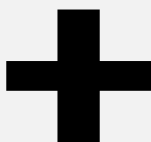
The HEM is defined as the median spend on absolute basics plus the 25th percentile spend on discretionary basics and exclusion of spending on non-basics.

How is HEM determined?

Absolute Basics

Most food items
Children's clothing
Utilities
Transport costs
Communications

Based on the median or middle value NOT average spend.



Discretionary Basics

Take-away
Restaurants
Confectionary
Alcohol
Tobacco
Adult clothing
Entertainment

Based on the 25th Percentile. Meaning 75% of people spend more.

Based on statistical data from locations and earnings

HEM excludes some absolute basic items and non-basic items, including but not limited to:

Private school fees
Medical insurance
Services (cleaners, lawn mowing etc.)
Overseas travel
Beauty treatments



The Lending Regulatory Environment

National Consumer Credit Protection Act and its Responsible Lending requirements mandates that:

“Reasonable inquiries regarding a customer's financial situation be made to ascertain and verify income, expenses and commitments.”

APRA 223 s44 stipulates in its requirements for residential mortgage lending:

“APRA therefore expects ADIs to use the greater of a borrower's declared living expenses or an appropriately scaled version of the HEM or HPI indices.”

With relation to HEM ASIC RG 209.142 states:

“The HEM figures do not include spending on a range of items that are commonly part of a consumer's overall outgoings...”

In the final report for the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, the Honourable Kenneth Hayne stated:

“Using a statistical measure of ‘the median spend on absolute basics’ plus the 25th percentile spend on discretionary basics as a default measure of household expenditure does not constitute verification of a borrower's expenditure.”



The Purpose of HEM

HEM is...

a system safeguard measure setting a minimum MLE to mitigate the risk of providing unsuitable credit, should a customer seek a loan amount greater than they can service by understating their expenses, placing customers into hardship where they cannot meet their basic needs due to their mortgage repayments.

HEM is not...

a representation of average spending to be used as an alternative to a robust conversation with customers about their actual living expenses, realistic figures based on current spending to ensure they can maintain their lifestyle.



The Monthly Living Expense Process Guide

When capturing monthly living expenses you should be able to demonstrate post loan position is reasonable and represents the customers lifestyle.

Customer Fact Find



Utilise the fact find to guide your customer conversation on monthly living expenses. These expenses include however are not limited to:

- Food and Grocery
- Primary Residence Utility and Maintenance
- Communication
- Tertiary and Public Education
- Clothing and Personal Care
- Transport and Auto
- Medical, Health and Fitness
- Insurance
- Recreation, Travel and Entertainment
- Children and Pets
- Expenses for Adult Dependants
- Other Additional Expenses

The Conversation



Discuss the customers lifestyle, interests and family circumstances. Use this information to focus on the declared monthly living expenses.

During the conversation focus on discussing expenses and any changes the customer intends on making in the future. Non-discretionary expenses are difficult to adjust and will normally continue post loan funding.

Record the customers responses and use this in your application commentary to reflect the level of detail in the conversation. If the customer does not have certain expenses, i.e. parents pay for vehicle running costs include that in your comments.

Validation



Validate your customer conversation and declared monthly living expenses using the clients 90 day statements.

Are there any material differences between the statement and what the customer has declared ?

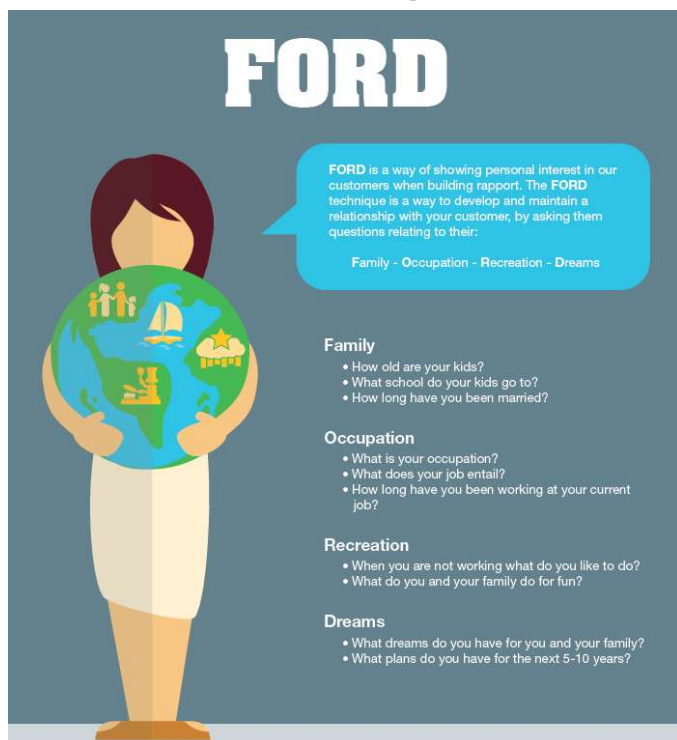
Has the customer given sufficient explanation to any differences ?

Have all expenses been captured ?

Do the declared expenses seem realistic or are they understated ?



The Monthly Living Expenses Conversation



FORD

FORD is a way of showing personal interest in our customers when building rapport. The FORD technique is a way to develop and maintain a relationship with your customer, by asking them questions relating to their:

Family - Occupation - Recreation - Dreams

Family

- How old are your kids?
- What school do your kids go to?
- How long have you been married?

Occupation

- What is your occupation?
- What does your job entail?
- How long have you been working at your current job?

Recreation

- When you are not working what do you like to do?
- What do you and your family do for fun?

Dreams

- What dreams do you have for you and your family?
- What plans do you have for the next 5-10 years?

Through understanding how your customer likes to spend their time, activities they engage in regularly, their interests and family life can all help you understand expenses which they may overlook when completing their Monthly Living Expenses calculations.

Utilise the CBA '*Monthly Living Expenses Calculation Template*' or equivalent to guide the conversation. Don't just take the completed form and enter the figures into the application, discuss how the customer arrived at the figures and sense check as you go. Use questioning and guiding statements to probe for overlooked expenses. This is also an opportunity to discuss any expenses that fall within the Other Additional Expenses category. You should discuss any changes the customer intends to make to these expenses that could impact their ability to make repayments in the future.

Explore whether there are any expenses from the Other Additional Expenses category that will be stopped, or that the customer is prepared to stop, to be able to afford the new loan and capture this information in the application comments.

Non discretionary expenses are difficult for a customer to reduce. A thorough conversation should be held if the customer indicates there are discretionary expenses they will reduce.



Tip: Before the appointment, contact your client to confirm with them what they should bring with them to the appointment, this is a great time to set expectations around the living expense conversation.

Questioning and Guiding Statements

Food and Groceries

- Do you pick up all your groceries from Coles, Woolworths, Aldi ? Or do you buy meat, veg or bread from specialty shops ?
- Have you included your daily coffee ?
- Do you eat out often or Uber Eats, Menulog ?

Primary Residence Utility and Maintenance

- Have you considered utilities such as water, electricity and gas, council rates ?
- Have you considered any renovations or ongoing maintenance on your home, like painting ? Do you do it yourself or pay a professional ?
- What are your pool expenses ?

Tertiary and Public Education

- Do your public school fees include excursions, books or computers ?
- What is the frequency of the school fees you pay ? Do you attend self funded education ?
- Do you have uni fees ? Have you considered books and materials ?

Insurances

- Do you pay your insurances monthly, 6 monthly or annually ? i.e. car, building and contents ?
- Have you considered the insurance you will need on your new home ?

Other Additional Expenses

- Do you have a holiday house ? Have you included these expenses in your MLE ?
- Do you have any personal insurances or counselling ?
- Do you have children that attend private school ? Have you considered tuition, books, materials and uniforms ?
- Do you own a recreational vehicle like a boat, caravan or trailer ?



Validation of the Living Expense Conversation



Although CBA no longer need statements, validating your customers declared expenses is still vital in ensuring that you're having an appropriate conversation with your customer. A 90 day period would capture most outgoings incurred, and enables you to make reasonable inquiries into a customer's overall expense position. When reviewing accounts for verification and conduct there will be some expenses that are paid quarterly, half yearly or annually that could be missed and demonstrates the importance of the customer conversation.



You should review all bank accounts where the customer transacts to ensure all expenses are captured.



In some cases there may be discrepancies between the conversation and the statement, this should trigger a conversation with the customer to explore their expenses further. If the customer intends on making changes ensure you discuss the feasibility of these changes.

The problem with adopting HEM is that it may increase the risk to customers and the Bank. As the provider of credit the Bank may grant a loan which the customer is unable to service.



Apply Online Screens

Secondary checks are available via Apply Online where you can review the declared monthly living expenses against what is being used when we assess the application. If the basic monthly living expenses are below the HEM, CBA will take the HEM value then add the declared additional expenses for the serviceability calculation.



Where the customer's basic monthly living expenses are below HEM you can identify this via Apply Online and review the input of expenses is correct.

It is also a good idea to consider if you have had the appropriate customer conversation.

Net Monthly Surplus	\$2,165
Total Net Monthly Income \$6,125 - Total Monthly Living Expenses \$1,978 - Total Monthly Commitments \$1,982	
Total Net Monthly Income	\$6,125
Net Personal Income for Mr Testaccount1 Homebuying \$6,125.25	
Total Monthly Living Expenses	\$1,978
Maximum of Non-Discretionary and Discretionary expenses declared by the applicants \$1,000 and Total Living Expenses as determined by the Lender \$1,978. Based on assessed income \$100,000, 1 household, 1 adult and 0 dependant.	
Total Monthly Commitments	\$1,982
Secured Debt Repayments \$0 + Credit Card Repayments \$0 + Other Payments \$0 + New Monthly Loan Repayments \$1,982	
Maximum Loan Amount	\$627,755



Thank you

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