

RACQ Bank Target Market Determination Investment Home Loan



This Target Market Determination (TMD) is designed to provide customers, distributors and our representatives with information about who this product has been designed for by describing the class of customers that comprise the target market for the product and other matters relevant to the product's distribution and review.

In this document the terms "RACQ Bank", "we", "us" or "our" refer to Members Banking Group Limited ABN 83 087 651 054 AFSL/Australian credit licence 241195 trading as RACQ Bank.

RACQ Bank - Investment Home Loan

RACQ Bank Investment Home Loan is a product that provides customers finance for investment purposes, including:

- Residential land or property investment (purchase, refinance and/or construction),
- Investment in shares in publicly listed companies,

where the customer provides RACQ Bank with residential land or property as security for the loan.

RACQ Bank offers different Investment Home Loan product options. Each product option has features and benefits designed to suit a range of different needs and objectives. Customers can elect a single option or tailor a combination to best suit their lifestyle.

This TMD sets out the target market for the following options:

- Mortgage Breaker Home Loan,
- Fixed Rate Home Loan.

A description of the key terms, features, and attributes of each option is set out separately in the Appendix to this TMD.

Target Market for all product options

A description of the target market for all options available under this product is set out below. A description of the target market that relates to each separate option under this product is set out in the Appendix to this TMD.

This product is likely to be suitable for customers who:

- ✔ Are individuals, partnerships, a company as trustee for a trust, Companies or a Strata Corporation (Body Corporate):
 - If individuals they are, Australian citizens or permanent residents, and
 - Aged 18 years and over,
- ✔ May have any one or more of the following short-term and long-term objectives:
 - Want to finance residential land or property within Australia as security for the loan,
 - Arranging to refinance an existing home loan,
 - Accessing equity built up in an existing residential property,
 - Want to finance investment activities; and/or
 - Consolidation of debts, which include a home loan
- ✔ Expect to have sufficient income/financial resources to meet all fees, minimum payments and other payment on the loan for the term of the loan or have an exit strategy that can be implemented; and
- ✔ Have an RACQ Bank transaction account if settlement funds are required and will transfer the settlement funds into it prior to settlement.

This product is not suitable for customers who:

- ✘ Want to finance an owner-occupied property,
- ✘ Want to use the funds for business purposes,
- ✘ Want a line of credit,
- ✘ Want to be able to redraw funds,
- ✘ Want a loan term greater than 30 years; and/or
- ✘ Want a loan principal of less than \$20,000.

Distribution of this product

This product has been designed to be distributed by our representatives only via our distribution network, being:

- RACQ contact centres by calling 13 1905 ,
- RACQ website by visiting racq.com (where available),
- RACQ Mobile Lenders,
- RACQ stores (including agencies).

We have distribution conditions in place designed to help ensure this product is only sold to customers in the target market.

These conditions include measures such as:

- Production and distribution of materials that explain and document the features of the product that are designed for customers in the target market,
- Where comparison websites display this product, purchase pathways referring customers only to representatives in our distribution network,
- Training and authorisation of representatives in our distribution network for this product. These representatives understand the market this product has been designed for, have the appropriate levels of authority for their role in the distribution chain, and where relevant, comply with their obligations as Australian Credit Licence (ACL) holders,
- Questions and information gathering on application, to determine whether the customers meet the eligibility requirements and acceptance criteria, including RACQ's Credit Risk appetite, for the product,
- Where applicable, applying measures required under the ACL regime,
- Systems and processes that support our eligibility assessments, and the delivery of other information relevant to the customer's understanding of the market for the product,
- This product may also be distributed to customers who have previously held an Owner Occupier Home Loan who no longer use the loan to finance an owner-occupied property.

Reviewing this document

The first review will be performed by 05 October 2022. This TMD will be reviewed within 1 year from each review date to ensure it remains appropriate.

We will also review this TMD if an event or circumstance (called 'review triggers') occurs that would reasonably suggest that the determination is no longer appropriate, or the product is no longer consistent with the likely objectives, financial situation and needs of consumers in the target market, such as:

- Notification from ASIC requiring immediate cessation of the product distribution or particular conduct in relation to the product,
- We make a material change to the product or lending policy,
- A change in our acceptance criteria that impacts on the suitability of the product for the target market,
- A material change to the distribution of the product,
- The discovery of a relevant and material deficiency in the product's disclosure documentation,
- Material complaints which indicate that the product is no longer suitable for the described target market,
- Significant dealings which indicate that the product is no longer suitable for the described target market,
- Material indicators and relevant changes in our key product suitability metrics such as:
 - Customer satisfaction,
 - Product value for the customer.

We will review this TMD within 10 business days of any review trigger.

Reporting

RACQ Bank and all distributors must record all complaints received about this product and report on a quarterly basis (Complaints Reporting Period). Distributors are required to provide to us written details of any complaints about the product they have received during the Complaints Reporting Period within 10 business days of the end of the period.

The Complaints Reporting Periods are as follows:

- 1 January – 31 March,
- 1 April – 30 June,
- 1 July – 30 September,
- 1 October – 31 December.

All distributors are required to provide monthly and incident-based reporting on key metrics (see the heading "Reviewing this document") to allow us to review this TMD.

Distributors are also required to report to RACQ Bank if they become aware of a significant dealing in this product which is not consistent with this TMD within 10 business days of becoming aware of such dealing.

All distributors must report sales data including number of products issued, renewed or cancelled on a monthly basis.

Record keeping

RACQ Bank and its distributors will maintain records of the reasonable steps they have taken to ensure that this product is sold in a manner consistent with this TMD.

We will also prepare and maintain complete and accurate records of our decisions, and the reasons for those decisions, in relation to:

- All target market determinations for this product,
- Identifying and tracking review triggers,
- Setting review periods, and
- The matters documented in this TMD.

Mortgage Breaker Home Loan

Mortgage Breaker is an Investment Home Loan for customers who want to take advantage of potential interest rate decreases while accepting the potential risk of interest rate increases through a standard variable rate home loan with flexible repayment options.

Below is a description of the key terms, features and attributes affect whether this option is likely to be suitable for the needs of the target market:

- Interest rate is fully variable over the term of the loan,
- 100% offset account available (principal and interest repayments only),
- Unlimited additional repayments to reduce overall interest costs,
- No monthly account keeping or ongoing administration fees,
- Loan can be split, fixed, or repaid at any time without penalty,
- Interest only period available.

This product is likely to be suitable for customers who:

- ✔ Consider a variable interest rate consistent with their investment strategy (and want the potential benefit of lower rates and accept the potential risk of higher rates),
- ✔ May want to have an offset account (for principal and interest repayments only),
- ✔ May want the ability to make unlimited additional repayments, repay and/or refinance at any time,
- ✔ May want to convert the loan to a fixed rate or split at any time,
- ✔ May want to have an interest only period, and:
 - Have an investment strategy that takes into account the risks of an interest only loan; and
 - Have a reasonable expectation that they will be able to service the increased minimum repayment after the interest only period ends.

This product is not suitable for customers who:

- ✘ Want 100% of their loan to have a fixed interest rate (and give up the potential benefit of lower rates in exchange for reduced exposure to rate increases); and/or
- ✘ Want to have an interest only period greater than 5 years.

The likely objectives, financial situation and needs of the customers within the target market for the Mortgage Breaker Investment Home Loan product option are likely to be met because:

- The product provides a variable interest rate,
- The product has no monthly account keeping or ongoing administration fees,
- Customers have the ability to utilise available account balance to reduce interest costs by using mortgage offset facility (principal and interest repayments only),
- Customers can make unlimited additional repayments to reduce interest costs,
- Customers have the flexibility to convert the loan to a fixed rate loan or split at any time,
- Customers can repay the loan early with no additional costs or penalty,
- The product provides the option to choose either principal and interest or interest only repayments (at time of application):
 - Interest only because it meets their investment strategy,
 - Principal and interest because it reduces the loan principal.

Fixed Rate Home Loan

Fixed Rate Home Loan is an Investment Home Loan for customers who want the security of a fixed rate home loan for an agreed period, with limited additional repayments during that agreed period.

Below is a description of the key terms, features and attributes affect whether this option is likely to be suitable for the needs of the target market:

- Fixed minimum repayment amounts for the period during which rates are fixed,
- 1, 2, 3 and 5 year fixed rate periods available, after the expiry of the fixed rate period the loan reverts to a variable rate for the remainder of the loan term unless a further fixed rate period is entered into,
- Additional repayments available, up to \$10,000 per year without incurring a financial penalty,
- No monthly account keeping or ongoing administration fees,
- Split loan option available,
- Interest only period available for the equivalent fixed rate period.

This product is likely to be suitable for customers who:

- ✔ Want to have fixed repayments for 1, 2, 3 or 5 years, while accepting they will not receive the benefit of any interest rate decreases which may occur during the fixed rate period,
- ✔ Want the option to either apply for another fixed rate term or convert to the standard variable rate loan at the end of fixed rate period,
- ✔ May want to have an interest only period, and:
 - Have an investment strategy that takes into account the risks of an interest only loan; and
 - Has a reasonable expectation that they will be able to service the likely increased minimum repayment after the interest only period ends.

This product is not suitable for customers who:

- ✘ Want 100% of their loan to have a variable interest rate (with the potential benefit of lower rates and potential risk of higher rates),
- ✘ Want to have an offset account,
- ✘ Want to make more than \$10,000 additional repayments per year within the fixed rate period without incurring a financial penalty; and/or
- ✘ Want to split, convert to variable, repay or refinance or sell the property within the fixed rate period, without incurring a financial penalty.

The likely objectives, financial situation and needs of the customers within the target market for the Fixed Rate Investment Home Loan product option are likely to be met because:

- The product offers fixed repayments for the chosen fixed interest rate term,
- The product has no monthly or account keeping or ongoing administration fees,
- The product is available to be split with the Mortgage Breaker,
- Customers can enter into another fixed term or convert to the Mortgage Breaker at the end of the fixed rate period,
- Customers have the ability to make up to \$10,000 additional repayments per year,
- The product provides the option to choose either principal and interest or interest only (at time of application):
 - Interest only because it meets their investment strategy,
 - Principal and interest because it reduces the loan principal.