



DomaCom

Property Loans Policy and Procedure

Property Loans Policy and Procedure

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1.2 Acronyms / Definitions Used Throughout the Document

Acronym	Description
DomaCom	DomaCom Australia Limited
Campaign	This is the DomaCom's process by which funds are raised to purchase a property or fund a mortgage
LVR	Loan to Valuation Ratio
ICR	Interest Cover Ratio
Gearing Ratio	(Interest bearing liabilities) divided by (Total assets)
Real property asset	This is a Physical Property
Onboarding	Transferring a completed Campaign onto the DomaCom fund (the platform)
APIR	Industry standardised Coding for Managed Funds
DD	Due Diligence
RBA	Reserve Bank of Australia
Perpetual Trustees Corporation	Custodian of the DomaCom Fund
Liquidity Facility	The DomaCom Trading Platform through which Unitholders buy and/or sell sub-fund units
IMA	Investment Management Agreement

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1.3 References (Related Policies / Procedures and Requirements)

Related Property Procedures
Compliance Plan
DOMACOM Compliance Policy & Procedures
Legislation / Other References
DOMACOM Australian Financial Services Licence 226701
Corporations Act 2001 (Cth)
International and Australian Accounting Standards
ASIC Regulatory Guides
FSC Standards and Guidance Notes
ASIC Reg. 46 Benchmark and Disclosure Principles (CP.11)

2. Introduction

2.1 Background

DomaCom operates in a regulated environment and is required to meet a range of compliance requirements for the managed investment scheme for which it is the Investment Manager, including where DomaCom either provides or arranges a Mortgage Loan Facility for a property purchase or construction.

2.2 Purpose

The purpose of this manual is to outline DomaCom's Lending procedures and policies in relation to:

- The establishment of a Loan sub-funds (the mortgage) within DomaCom and

The procedure will include the Due Diligence review for a Mortgage which is being used in conjunction with a Property purchase for a Real Property Assets or construction prior to their on-boarding processes into the DomaCom fund.

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2.3 Scope

This policy applies to all employees of the Company and its managed and/or owned entities.

2.4 Roles and responsibilities

Role of the Head of Risk and Compliance

The prime function for the Head of Risk and Compliance is to protect the interests of the Lender of the funds being employed in the Loan sub-fund. To achieve this the Head of Risk and Compliance must be familiar with the Compliance Program and the Compliance Plan. They will assume responsibility for compliance and rectifying breaches. The Head of Risk and Compliance must:

- Identify legal compliance obligations with the assistance of DomaCom management, legal and external advisers;
- ensure that these obligations become part of the business systems and processes;
- report to the Board of DomaCom compliance with these requirements; and
- be familiar with DomaCom's compliance obligations.

It is the Head of Risk and Compliance's role to directly monitor compliance Loan issues.

Role of Managers

Identified Managers across all business units (Client Services, Property, Finance & Accounting, IT, etc) are responsible for reporting and monitoring key operational areas and its impact on DomaCom's Compliance Plan.

Role of Employees / Representatives

All employees are required to assist DomaCom in meeting its operational and compliance obligations.

2.5 Sign-offs and approvals

Position	Role
Head of Risk and Compliance	Preparation of policy plus production of Quarterly and Annual reports views.
Investment Committee	Authorisation of each new Mortgage Facility
Chief Operation Officer	Initial policy implementation and policy

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	amendments as required.
Board	Delegated Sign-off

2.6 Key definitions

Term	Explanation
Compliance Plan	This plan forms part of DomaCom Australia Limited Australian Financial Services Licence.
Due Diligence	A comprehensive appraisal to confirm the value of the property being mortgaged is accurate and that the borrower has the capacity to make interest payments as they fall due.

2.7 Policy review and revision

The Head of Risk and Compliance will review this Manual annually and report any updates to the Board.

A copy of any updates is to be provided to the Chief Operating Officer. If required, the Chief Operating Officer may seek internal or external advice on the Compliance Program and loan procedures as outlined in this Manual. The Manual may be updated more regularly if required due to regulatory changes, significant licence changes or changes in the circumstances or the operations of DomaCom.

3. Due Diligence process

Prior to the asset being purchased by a DomaCom sub-fund and on-boarded into the DomaCom platform, a review of the Real Property Asset is undertaken during the Campaign process. At the same time the appropriate DomaCom staff will establish the level of loan which can be granted against the property and that the rental income from the property is sufficient to cover the interest expense of the loan being sought, over the life of the Sub-fund.

The Due Diligence process has 3 generic areas of focus across all the loan processes. These being categorised into Legal, Valuation and Loan to Value Ratio (LVR) and Interest expense. The categories of review include:

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3.1 Legal Review

The legal review will be a review on title available, whether leasehold or freehold, together with any incumbent lease and/or sub-lease proposed.

3.2 Valuation

A current independent market valuation of the Property will be undertaken to benchmark the asset against the Campaign amount.

The Loan Sub-fund will be priced at \$1.00 per unit and stay at this price for the life of the Sub-fund. The situation where this would not be the case is where there is impairment of the loan, refer to section 5 - Loan Termination procedures.

3.3 LVR calculation and Interest Repayment rate

The Loan Amount (mortgage) will be established at a LVR gearing ratio and Interest cover ratio (ICR) which is in accordance with the Regulatory Guide 46 Benchmark and Procedures principles:

- Maximum LVR is 60%
- Maximum Gearing ratio is 50%

The Property Sub-fund must also be positively geared, meaning that the rental income exceeds the property expenses including management fees. The Property sub-fund must meet an ICR ratio of at least 1.0 times. (See below for an example of how these calculations are made)

a) Establishment of a Loan sub-fund

For every loan DomaCom will establish a separate DomaCom Loan Sub-fund:

- Using a unique APIR Fund Code for each loan and
- which includes in its title a reference to the address of the Property Sub-fund and
- all of these matters will happen at the same time as the borrower has had their application for a property or construction loan approved by the DomaCom Investment Committee
- an electronic copy of each Loan Sub-Fund will be provided to the Head of Risk and Compliance as soon as it has been established.

The DomaCom Investment Committee will only give its approval to a Loan after it has investigated and confirmed that the LVR being applied is correct and that the ICR, rental income less fees, is adequate to fully cover loan interest repayments as they fall due, i.e. exceeds the ICR of 1.0 times.

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3.4 Aboriginal Land Rights

Loan Sub-funds can be established to fund Rural Properties. As part of the Due Diligence process on the acquisition of rural land, the Property Funds appointed conveyancer/legal representative, will review contracts and the relevant land registers to determine if the property is subject to any Aboriginal Land Rights that would have an impact on title, or the loan being sought.

3.5 Loan Facility Conditions

Where DomaCom is providing a Loan Facility in conjunction with a Property purchase and/ or a construction loan via a DomaCom Sub-fund certain pre-loan conditions, as shown below, must be met and agreed to by the borrower before a Loan can be approved:

- The Loan being provided is made on an Interest Only repayment basis.
- The term for the Loan sub-fund matches the term for the Property sub-fund, or the construction period.
- The Interest Rate is charged at the combination of the RBA Overnight Cash rate + max 10.0%.
- The RBA Overnight Cash Rate charged may vary from month to month.
- The MER (Managed Expense Rate) charged by DomaCom is:
 - Property 0.88%pa – 1.10% (GST Included)
 - Loan Facility 0.44%pa 1.10% (GST Included)
- The Maximum LVR (Loan to Value) is 60% and may be less where an external loan funder stipulates a lower rate.
- The ICR needs to be at least 1.0 times i.e. the expected Rental Income from the property less any costs must be equal to or more than the Interest Rate expense for the Loan. For clarity this is represented by

$$\text{ICR} = \frac{\text{Earnings before Interest and depreciation}}{\text{Interest expense}}$$

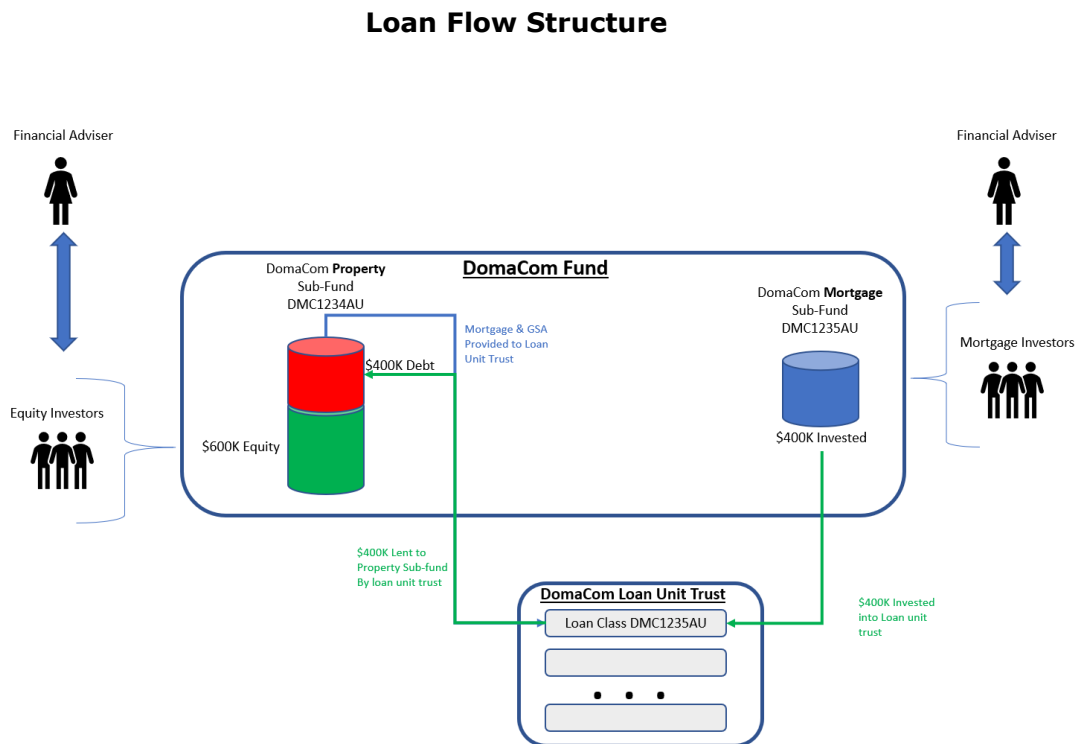
- When a loan is approved the loan amount is quarantined ready to be transferred to the corresponding Property Sub-fund. At this time it will also be necessary to calculate the Interest Amount to be paid to the lenders between the day the Loan Sub fund is created and the date of settlement of the property, this being an added expense for the Property purchaser.

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3.6 Establishment of DomaCom Loan Sub-fund

The Loan sub-fund Campaign can only be established after the Property Campaign has reached 50%. As soon as the Loan sub-fund reaches 100% those funds will be quarantined ready to be transferred to the Property sub-fund as and when required. Unitholders in the Loan sub-fund will receive interest payments at the rate described in clause 3.5 from the time the Loan sub-fund has reached 100%.

The Loan Flow Structure is shown below.



4. Acquisition, cash distribution and disposal processes.

When a Property asset is purchased via the DomaCom Platform utilising a DomaCom Loan facility an asset, made up of three components, is created:

- A Property sub-fund

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- A Loan sub-fund and
- A Cash Reserve account.

The purpose of the Cash Reserve is to ensure that there is a pool of funds always available to meet normal property ongoing expenses; i.e. Loan repayments, rates, applicable utility expenses, maintenance etc. These expenses will be drawn from the Cash Reserve account as and when necessary under the terms provided in the Property sub-fund.

Where the Property in question has an attached Loan sub-fund the Cash Reserve account is usually established at the equivalent of four months rental income.

4.1 Establishment Costs

All costs associated with the establishment of the Property sub-fund and the Loan sub-fund are to be borne by the Property sub-fund.

4.2 Rental income and Distribution

All rental income is deposited into the Property's Cash Reserve account on the day it is received. Distribution payments to both the Property sub-fund and the Loan sub-fund are made to both sets of Unitholders on the First business day of the month.

Where a tenant fails to pay rent then the Loan sub-fund will still receive its monthly distribution, paid out of Cash Reserves; i.e. the Loan sub-fund takes precedence over the Property sub-fund and its associated expenses.

4.3 Property disposal and Termination of Loan sub-fund

Clause 6 provides precise details for the termination of the Loan sub-fund under all possible circumstances.

As stated previously, any costs associated with the sale of the Physical property and the discharge of the Loan must be borne by the Property sub-fund.

The final Distribution following the sale of the Property will be to firstly pay out the Loan sub-fund in full (capital and any outstanding interest due), or whole balance of the sale proceeds from the Property if there is insufficient proceeds to satisfy the whole Loan sub-fund, and only then to Distribute the balance of the sale proceeds to the Property sub-fund.

5. Legal

Full details of the Legal Review process regarding a Property Purchase can be found in Section 4 of DomaCom Policy and Procedure Real Property.

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Before any borrower enters into a Loan Agreement via a DomaCom Loan Sub-fund said borrower should seek their own independent legal advice regarding such a loan. Borrowers should have read the latest DomaCom Fund Product Disclosure Statement, ARSN 167 020 626

6. Loan Termination Procedure

6.1 Default on Loan Interest payment

Loan Interest Payment will be tracked via the daily/monthly checklist to ensure interest has been paid on each Loan Sub-fund and also verified that the interest is correct as per the loan rate.

If a Loan sub-funds' interest payment is 2 months' in arrears a receiver will be appointed by DomaCom Loan Pty Ltd on the underlying Property sub-fund. The underlying Property sub-fund will then sell the property with the Loan sub-fund unitholders (both capital and outstanding interest) being the first creditors to be paid ahead of Property sub-fund unitholders and other creditors.

6.2 Sale of asset in sub-fund

Should a Property sub-fund reach the end of term, or a windup event occur, that would require the realisation of the property asset within the fund, the corresponding Loan Sub-fund would be wound down and the capital initially borrowed, and any outstanding interest would be returned to the appropriate unitholders.

The procedure for this process would automatically follow on from the closure of the property sub-fund as detailed in Section 13 of DomaCom Policy and Procedure - V12.1 - Real Property.

6.3 Termination of Loan Sub-fund by unitholders

Unitholders of a Loan Sub-fund can vote to terminate their sub-fund provided the vote is carried by unitholders who hold at least 75% of units in the Loan sub-fund.

7. Liquidity Facility

DomaCom has established a liquidity facility (trading platform) which will allow unitholders of a Loan Sub-fund to offer for sale all or part of their units in the Loan sub-fund. The unitholder selling their units sets the price at which they will sell their units, such units being offered to other existing DomaCom unitholders.

Below is an example of a Loan Sub-fund unitholder's offer to sell 2500 Units on the liquidity facility trading platform:

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10A PEEL STREET, MELBOURNE VIC 3000, Australia (DMC0154AU)
LoanAsset Trading

Current Price \$1.0000	Bids/Units No bids	Ask/Units \$1.0000/2,250.0000	Next Resolution Date 21 Feb 2023	Capital Growth ⓘ \$0.00 (0%)	
Asset Valuation \$0.00	Cash Assets \$4,500.00	Receivables \$0.00	Liabilities \$0.00	Net Asset Valuation \$4,500.00	Units issued 4,500.0000

Bids and Offers | Asset | Transactions | Documents | Performance

Bids				Offers			
Bid Date	Value	Est. Units ⓘ	Unit Price	Offer Date	Quantity	Value ⓘ	Unit Price
No current bids. Please place a new one				28 Feb 2018	2,250.0000	\$2,250.00	1.0000 ⓘ

Buttons: New Bid, New Offer, Cancel, Take

8. Reporting – Governance

As part of the Statutory Financial Accounts prepared as at 30th June and at 31st December each year the CFO will also ensure that a separate report detailing the value of each DomaCom Loan sub-fund is provided in conjunction with each Property sub-fund where a Loan is associated to that Property sub-fund.

8.1 Other Public Documents

The CFO is responsible for ensuring the details of property valuations provided in Offer Documents, Annual or Half Year Reports, DomaCom Funds Management Web-Site updates and other public documents are accurate and verified back to a current valuation report.

8.2 Continuous Disclosure

Material movements in valuations of a Fund's property may need to be reported under the Fund's Continuous Disclosure obligations. The Registers referred to in this Chapter are maintained in part for the purpose of ensuring that changes are identified and reported. As issues or exceptions arise they must be reported to the Responsible Entity and changes made to relevant SPDS' in accordance with the processes set out in DomaCom's Compliance Plan.

The IMA requires that DomaCom is responsible for monitoring and managing the Loan sub-funds, their performance and, if thought appropriate, recommend that certain Loan sub-funds be wound up under the provisions of Clause 6. The CFO will be responsible for ensuring that all necessary financial reports are prepared for this purpose.

In addition, the CFO will be required to present a Monthly Valuation Exception Report at the next Executive meeting which lists the approved property valuations, where said properties had attached Loan Sub-funds, which were subject to:

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- a percentage change in valuation of between 10% and 20% compared to the carrying value at the time of the Subsequent valuation.
- what financial impact, if any, this change of valuation would have on the calculations for both LVR and ICR.