Competition in the Australian Financial System
Productivity Commission Draft Report
Submission by Maria Rigoni
March 2018

The Supply of Independent to Bank, Mortgage Brokers

A mortgage broker is an individual person who assists a willing loan buyer find a willing and suitable loan seller, from a range of product suppliers, for a payment when the deal has been executed.

The loan sourcing action is a supply side business expense to the lender, offset by ongoing business revenue received from the borrower for up to 30 years.

Apart from other obvious considerations the competition argument needs to look at the ability of a consumer to be able to freely access a no cost to them, an independent from credit provider, loan sourcing service.

Whitelabel Broker, aren't they a Mortgage Broker?

NO

Mortgage Manager, aren't they a Mortgage Broker?

NO

Mortgage Broker, don't they work for the lender?

NO

Mortgage Broker, don't they get paid by the lender?

NO

Aggregator, aren't they a Mortgage Broker?

NO

Doesn't the payment of commission tie the Mortgage Broker to the bank

NO

Lenders pay aggregators and aggregators pay third-party mortgage brokers to find sought after profitable customers.

It is harder to find customers that need and qualify for larger loan sizes and their financial situations are usually more complex.

buyer's choice

The Market Players

Credit Provider
Can be a bank or a finance company.
Manufacturer and retailer of wholesale and retail credit products, designed to sell to willing and credit worthy businesses and consumers.
Function as a lender
IS THE LOAN APPROVER.
Have loan account clients.

Mortgage Broker
Does not function as a lender.
Has no loan account clients but has a portfolio of mortgage broker introduced clients with their aggregator while the introduced loan stays in existence.
Retains the consumer as a mortgage broking client for new loan sourcing opportunities.

Consumer – A credit worthy and willing buyer - Borrower
Is a loan account customer of the lender
Is a Mortgage Broker client for loan sourcing service

Mortgage Manager / Whitelabel Broker
Use wholesale funds under own 'brand' to sell retail loan products and may manage day to day operation of loan accounts after funding.
Function as a lender - but do not approve loans.
Have loan account clients.
ARE A COMPETITION ILLUSION AS BANKS FUND THEIR LOANS

Comparison Website
Does not function as a lender.
Have no loan account clients
Do not source loans for potential borrowers
Get paid for introducing leads

Professional Referrer
Does not function as a lender
Introduces "name and contact details" to lenders, mortgage managers, Whitelabel brokers, and some mortgage brokers.
Have no loan account clients
Do not source loans for potential borrowers
Get paid for introducing converted leads

Aggregator
Does not function as a lender
Mortgage Broker member organisation who have remuneration contracts with credit providers distinct from remuneration contracts with mortgage brokers.
Have no loan accounts clients.
Exhibit a portfolio of mortgage broker member introduced clients while the loan stays in existence.

The current ‘accreditation’ system needs a competition audit as it displays traits of banks limiting the supply of accredited introducers to consumers looking for a loan sourcing provider.

In the original aggregator concept the individual introducer’s volume of business was unknown and unimportant to lenders on the aggregators panel. It was a network of independent mortgage brokers who through the action of bulking loan volume, were able to negotiate better lender remuneration terms.

An accreditation identifies which individual from which aggregator introduced the loan account via an access portal.

The banks are exhibiting their market power over accredited individuals in unfair and boycotting ways, which restricts consumer choice.

In a competitive environment what would make competitors not accept new business from people who are licenced by the government to do so?

Accreditations are given by lenders to individual people, not businesses.

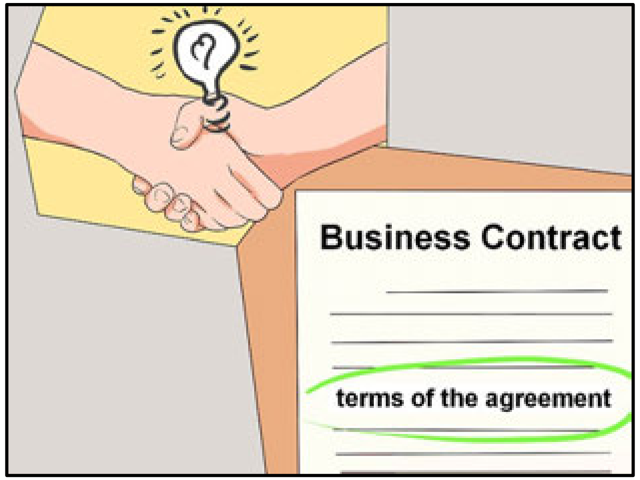
There is no remuneration contract attached to a lender accreditation.

There is no authority to be an agent of the lender attached to an accreditation.

Accreditations are not transferable from person to person.

Without Accreditations a person cannot operate as a Mortgage Broker, even if they are a member of an aggregator or hold an Australian Credit Licence.

Banks over time have tried to control the industry by saying who can and who cannot hold an accreditation, and under what conditions, to introduce new business to them via a contracted aggregator.



A Mortgage Broker is a Third-Party Accredited Introducer

The accredited introducer has no legal ownership of any payment made by the bank to the aggregator as they are not a party in the commercial contract between the bank and aggregator. Sometimes a Mortgage Broker business becomes a sub-aggregator building another level into the contract chain.

Most Lender / Aggregator agreements are confidential between those parties and may specify additional remuneration payments that are not part of the aggregator / third party contract.

Unfair contract term - In the early to mid 2000's 'clawback' of 'unearned commission' due to the introduced loan being repaid early by the borrower, was for a three or six month period. Around 2008 this transference of commercial risk from the lender to the Aggregator / Mortgage Broker was increased to 18 to 24 months. The third party mortgage broker bears most of the financial weight of 'clawback' of 'unearned commission'.
At the same time as 'unearned commission' is clawed back from the aggregator / mortgage broker the bank offer consumers 'Refinance Cashback Offer' of up to $1500- to refinance.

The contracted valid consideration is a "once off" upfront payment which is paid upon funding and a monthly trail payment.

The trail component recognises the portfolio of established loans of which involved the provision of services by the aggregator and accredited introducer for the loan to come into existence.

Both these payments are for the completing, processing and referring of residential mortgage finance applications by prospective borrowers, acceptable to lenders and to the aggregator. The commissioned task ends at funding of the loan. There is no contractual requirement to stay involved with or monitor the continuing loan accounts held at the lender.

***The Combined Industry Forum wants mortgage brokers to start being responsible for loan operations after the loan has been funded without additional remuneration for doing so.

Information Request - Should Consumers Pay Broker Fees For Service? Absolutely Not

A mortgage broker business, generally, does not receive a contracted payment from any bank.

A Mortgage Broker does nothing for a consumer that the consumer cannot do for themselves, **<u>except</u>** prequalify the consumer’s personal and financial situation against a range of credit providers approval criteria. Consumers seek a Mortgage Broker’s service to find out who they qualify for a loan with and what products are available to suit their desire for finance.

A Mortgage Broker does nothing for a bank that their bank staff cannot do for them, mortgage brokers find new to bank potential borrowers who have been prequalified using the banks own loan approval criteria. Mortgage Brokers have a far wider geographic reach than a bank branch staffer does.

The remuneration bank staff receive is individual taxable income. Staff are part of the bank’s business. Staff salaries and benefits are a business expense paid out of revenue before a profit is declared.

The remuneration banks pay an aggregator is business turnover, not individual taxable income. The aggregator <u>may or may not</u> be part of the bank’s business. Aggregator remuneration is a commercially contracted business expense paid out of the bank’s revenue before a profit is declared.

Bank employee base salaries, entitlements, and benefits are a fixed business cost regardless of individual performance. Commercially contracted aggregator businesses are a variable cost to the bank that is fixed to a set of performance criteria of successful introduction of new business.

Information Request - Should Consumers Pay Broker Fees For Service? Absolutely Not

Currently a bank pays aggregators to find and supply preferred and pre-qualified new loan business. If a consumer were to pay a mortgage broker a fee for service, in effect they would be paying for the banks marketing and new business acquisition costs.

The main financial winners for “consumers to pay mortgage brokers a fee for service” is the major banks.

It is normal practice for bank interest rates for like products **to be the same** via its direct channel and the third party channel.

The price paid for a loan product is determined by the lender – even when a pricing discount tool is available to both the direct and mortgage broker channel to apply for unadvertised discounts.

If a bank tries to win consumers back to it proprietary channel by not offering the same unadvertised discounts it offers through the mortgage broker channel then it is a commercial decision they are entitled to make.

The cost of finding new customers is a whole of bank responsibility spread over all channels and product types. Once a new customer is on board it gives the bank amply opportunity to sell other bank products to the new customer.

The cost of finding new to bank home loan clients is only a part of a bank’s client acquisition strategy. It would be extremely unfair to the consumer to have to pay to be introduced to a bank so the bank could sell them a home loan that the bank will earn revenue from for up to 30 years.

Mortgage brokers provide information about lender products for potential borrowers to procure, they source loans available in the market place and marry them up to specific requirements and objectives and financial position of potential borrowers looking to use a loan product.

The choice of purchase of a bank loan product is at the potential borrower’s discretion.

Wherever possible a mortgage broker will offer more than one product of more than one credit provider for their client to compare.

Should Consumers Pay Broker Fees For Service? Absolutely Not - Lenders are looking for those consumers to sell them a product

<u>A NO COST TO CONSUMER MORTGAGE BROKER SERVICE PROVIDES:</u>

1. A set of finance problem solving skills.
2. A sound working knowledge of real property purchase and sale processes.
3. Knowledge of market place competitor products, policy, application and approval processes, and turnaround times.
4. Access to a range of lender products, policy, application and approval processes, and turnaround times.
5. An ability to keep the application file moving through the banks loans operation system to ensure required borrower timeframes are met.
6. Compliance with mandatory legislative consumer protection requirements.
7. A no cost to potential borrower loan sourcing service.

A mortgage broker who deals with residential mortgages and other consumer credit covered by the National Consumer Credit Protection Act, 2009 (NCCP) must:

1. Be either an authorised representative of or hold an Australian Credit Licence.
2. Be a member of an aggregator who has a panel of lenders with remuneration contracts in place for the introduction of new business or obtain a remuneration contract directly with the lender (which is rare these days).
3. Hold a specified industry qualification detailed in the NCCP.
4. Be given accreditation, by individual credit providers on the aggregators panel, after a detailed assessment process to ensure the individual is a person the credit provider wants to deal with, and demonstrates a knowledge of products, lending policy and submission procedures.
5. Be honest, efficient and fair in all their dealing with consumers and credit activities.
6. Have adequate arrangements in place to ensure their clients are not disadvantaged by any conflict of interest in relation to their credit activities.
7. Be a member of an ASIC approved Ombudsman scheme.
8. Be covered by Professional Indemnity Insurance.
9. Provide the credit provider with prequalified suitable borrowers as determined by the credit policy and credit appetite of each lender for lender assessment for approval or refusal. Process and submit the loan application in accordance with the rules of the individual credit provider.
10. Accept the lenders credit decision in either approving or refusing (even if the client ticks all the prequalification boxes) a submitted credit application.
11. Accept that the upfront paid remuneration for their commissioned work can be taken back as ‘unearned commission’ in full or partially, at the credit provider’s total discretion for a period of up to two years.
12. Accept that they may not receive any remuneration for two months after the borrower transaction has settled.
13. Accept that they may have to restructure loans for existing borrowers for assorted reasons without payment as there is no loan value increase.
14. Not question any lender for their decisions, efficiency, policy or treatment of consumers or the broker risks removal of their individual accreditation to introduce new business.

Information Request - Should Consumers Pay Broker Fees For Service? Absolutely Not

Some consumers already do pay a mortgage broker fee for service in accordance with a *NCCP Act* written quote agreed to and signed by the consumer prior to the mortgage broker providing that service.

For the most needy, the payment of a fair mortgage broker fee for service would be unaffordable.

Mortgage Brokers are independent contractors running their own business, same as contractors working in IT, advertising, marketing, education, construction, consumer goods, medicine, business services, dairy, transport, and other industries.

Aggregators would disappear as they would no longer collect commission payments that they rely on to operate their business.

The mortgage broker profile would change to be a supplier of loan product and scanty policy information without directly submitting the loan application to the lender.

Banks may start to charge a broker fees for access to their third party websites. The major banks may decided not to deal with mortgage brokers or may not provide them with the information they need to efficiently source loan product, loan approval criteria, and systems.

Most consumers either would not be able to afford to pay or will not want to pay the fee required to cover the full cost of providing the mortgage broker service offered to them today at no cost.

The market place would become less competitive and many mortgage brokers would exit or become paid referrers to one or two lenders.

Consumers would go straight to the bank and have no idea if they were paying more than they could if they went to a different lender.

If the consumer did not qualify for a loan they required with their bank they may believe that they won’t qualify with any other lender as well.

The banks profits margins would increase.

Is there a rationale for the structure of Mortgage Broker Commissions?

Trail commission benefits consumers as without it few mortgage broker businesses would survive and the loan sourcing service that is at no cost to the consumer would be a thing of the past.

Claw back of ‘unearned commission’ is a transference of commercial risk from the lender to the aggregator and the mortgage broker carries the biggest financial burden. It is an unfair and unethical business practice.

Some mortgage brokers have written a refund of clawback clause into their credit guides/ quotes as they have no control over what a borrower does after the loan has settled. In these cases it is the consumer who wears the cost of the clawback.

Borrowers repay their loans early for many reasons including being unsatisfied with the service level of the lender. The relationship with the mortgage broker may disintegrate as a result of lender behaviour including bad service or rewriting the loan onto the bank branch books. It does not matter why the loan is repaid the clawback of ‘unearned commission’ is applied.

If a consumer is unhappy with their lender within the clawback period most brokers will refinance them to a new lender and ‘cop’ the clawback as it is the long term mortgage broker service relationship that is important to them.

With the upfront, trail is a payment made to the aggregator for the introduction of new business. If the broker does not meet required volume levels or changes aggregators they can and do lose their trail payments. The agreement between the aggregator and the mortgage broker usually provides the mortgage broker with a portion of the trail payment.

The payment of trail allows a mortgage broker business to survive. Trail represents a very small monthly payment amount for each introduced loan, while that loan stays in existence. As the loan decreases in size the trail payment amount also decreases. If a broker does not continue to introduce new loans their trail book payments diminishes quickly.

The average life of a loan is around five years and stepped trail commission usually come into effect year four.

If a mortgage broker business settles $12,000,000- in home loans in a year, the upfront inclusive of GST at the ‘standard’ rate is $85,000- If they have built up a portfolio of $30,000,000- of introduced loans the trail component is $49,500-. Assuming no clawback of ‘unearned commission’ total business turnover inclusive of GST is $135,300-. Minus aggregator’s cut, compliance, licencing, PI insurance, telephone, office, transport, marketing, etc the income left is around or less than the average Australian wage.

Is there a rationale for the structure of Mortgage Broker Commissions?

There is a lot of banter around at the moment about why trail is paid. It is not the case that the mortgage broker is paid this money to monitor the loan or keep in touch with the borrower until the loan is repaid in full.

This assertion implies that somehow the mortgage broker has ownership of the customer and the loan account and the trail payment made by the lender to the aggregator. They do not. The mortgage broker relationship is totally separate from the lender client relationship and lender aggregator relationship.

When a lender offers a credit proposal and the customer accepts that proposal the deal is between the lender and the borrower. The loan account is the business of the lender and the customer, not an unrelated third-party.

The structure of the upfront and trail components work to keep a small mortgage broking business afloat.

When you consider how often people take out a home loan product you can see that it is not an everyday occurrence. The lead in time can be many months and the upfront payment can take two months after settlement before it is received by the mortgage broker. The trail component is recognition of how many loans a mortgage broker has in their portfolio of introduced loans with an aggregator. The payment on each loan may only be $10- or $20- or $50- a month but collectively it adds up. This helps the small mortgage broker business to stay afloat while waiting for the upfronts to come in and covering any ‘unearned commission’ ‘clawbacks’.

Unlike bank staff who are paid a wage, the contracted remuneration a mortgage broker receives from the aggregator is gross business turnover that business expenses have to be taken out of before they can take a wage.

For a new entrant to be able to make a profession out of mortgage broking they have to hold a good deal of cash in hand as upfronts are slow to eventuate and trail portfolio takes time to build and retain. The average life of a loan is about 4-5 years so a trail payment of more than 10 years is not an every day loan. If a mortgage broker changes aggregator or sub-aggregator there is no guarantee that they will retain their trail portfolio payment and often if it is still paid the old aggregator will charge a fee to remit it to the mortgage broker.

Since the Sedgwick report and the ASIC review and the formation of the Combined Industry Forum it is noted that almost all commissions are set at a ‘standard rate’ of .715% GST inclusive, and trail is becoming a ‘standard rate’ of .165% inclusive of GST.

As both the upfront payment and trail are unascertainable at the point of regulatory disclosure, it is a nonsense that any dollar figure is provided to the consumer in disclosure documents. While the upfront is ‘unearned commission’ until expiry of the clawback period and trail is based on the outstanding loan balance less any offset account balances the gross turnover payment cannot be predetermined.

Interest Rates from Brokers VS Other Channels - First Determine: Who Is A Broker?

A Mortgage Broker is an Accredited Introducer

A Mortgage Broker is employed within a Mortgage Broker business.

To be able to introduce potential borrower applications for credit assessment, an individual, via an aggregator, must apply to each home loan provider, for a unique to them accreditation.

Accreditations are given by lenders to individuals not businesses or aggregators.

The accreditation is given after a set standards of product, policy, and bank processes knowledge is tested, and other criteria and education standards are met.

The loan relationship is between the credit provider and the borrower. Once the loan application has be approved and settled the lender takes ownership of the introduced new loan account until it is repaid in full.

The introducer keeps the mortgage broker client relationship for future sourcing of new or additional finance.

Mortgage Brokers as Accredited Introducers do not operate with an interest rate margin and cannot set the interest rate a borrower pays. They can however, ask the lender to discount the advertised rate.

Mortgage Manager

Are often called Mortgage Brokers and are rarer in today's market since the banning of Deferred Establishment Fees.

Source funds from mortgage finance wholesaler providers who are the approver of any loans.

They badge a 'brand' name, such as "Aussie Home Loans" and then find people who want to borrow money.

Potential borrowers are usually supplied via direct marketing, staff, and accredited introducer networks.

They directly process a loan application through to approval and settlement, and then manage the loan account until such time as the loan is repaid in full.

The mortgage manager receives an upfront fee for their processing of the loan application and an on-going management fee for their 'retail' role.

The mortgage manager has an ongoing retail relationship with the borrower for the branded loan product and deals with any queries about statements, arrears, repayments, the account operation and mortgage variation requests.

Mortgage Managers operate with an interest rate margin and can set the interest rate a borrower pays.

White Label Brokers

Have become the new 'flavour' in mortgage aggregation distribution and are often called a Broker product.

These product providers source funds from mortgage finance wholesaler providers. Aggregators badge a 'brand' name, such as "PLANLend" "AFG Icon" "AFG Edge" "Loan Market Go" and then use their accredited members to find people who want to borrow money.

The loan application is packaged and sent to the credit provider to approve, document and settle. Borrowers have access to a Customer Care Team for post-settlement support.

White Label Brokers are usually aggregators who are branding lending products available, exclusively, through their own network of accredited loan writers.

Marketing includes promises of no bank / broker channel conflict.

White Label Mortgages operate within an interest rate margin and can be instrumental in setting the interest rate a borrower pays.

Aggregators

An aggregator is often called a Mortgage Broker company.

A company operating as an aggregator does not have direct relationships with home loan consumers. They contract with Accredited Introducers to find them potential borrowers for lenders on their panel who require loan source assistance.

The loan application is introduced via the aggregator and sent to the credit provider to approve, document and settle. The aggregator has ancillary contact with the mortgage broker customer.

The primary point of contact with the customer is the Mortgage Broker.

Aggregators receive additional income via funding of their White Label products more than banks direct loan products.

An aggregator has no decision making power on the interest rate a bank offers to home loan borrowers regards bank branded products.

A Mortgage Broker is an Individual Person – An Accredited Introducer of new business
It is rare for a Mortgage Broker to have remuneration contracts with banks

From the mid 80's banks cut staff, cut branches, wanted electronic user customers.

By the early 2000's.
They had succeeded.
Fewer and fewer people would visit a bank branch with fewer and fewer staff to serve them.

Lenders were moved off-site into central cells.
With very few customers going into bank branches, the banks had to find new ways to sell their product offering to customers.

Banks started to engage with businesses called aggregators, because, the banks did not want to be introduced to anyone. They wanted introduction to prequalified people wanting and able to borrow money from them. The job of the aggregator was to find and manage the people who had the skills and knowledge required to find the banks only people the banks wanted to lend money to.

The banks realised that the introducer-clients relationship was strong. In 2007-08 aggregator remuneration was drastically reduced and replaced with a 'diversify' campaign designed by banks to cross-sell other products to replace the lost income. Via accreditation banks started to limit who could operate in the industry and refused to deal with small volume brokers even though membership of an aggregator was held.

Mortgage Brokers give their customers a great no cost service of sourcing loan products, that the consumer is eligible for and wants to buy. In 2017 the CIF was formed and the existence of the mortgage broker industry is under threat.

Original Historic Relationship - Healthy Competition Evident

Bank ⟵ Aggregator ⟶ Mortgage Broker

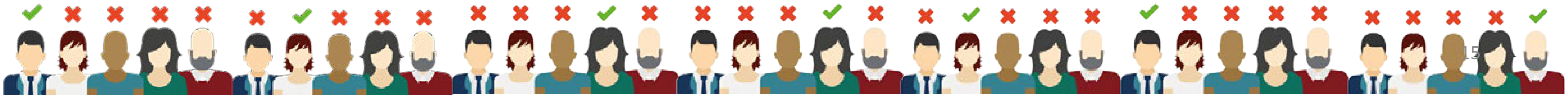
Banks compete with each other for access to aggregator members

Each aggregator has an individual <u>COMMERCIAL</u> remuneration <u>CONTRACT</u> with each lender on their panel

An aggregator has an individual <u>COMMERCIAL</u> remuneration <u>CONTRACT</u> with each Mortgage Broker business

Aggregators compete with each other for members who will find prequalified borrowers for lenders they contract to

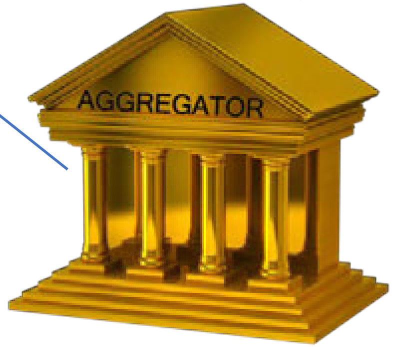
Mortgage Broker commercial contractors compete with other like small businesses and banks to find preferred borrowers



Current Vertical Integrated Relationship - Healthy Competition Disappears
Bank ⟵ Aggregator ⟶ Mortgage Broker – Commercial Relationships Distorted

Less Banks compete with each other for access to Aggregator members

Each aggregator has an individual COMMERCIAL remuneration CONTRACT with each lender on it's panel (can be contract to itself)

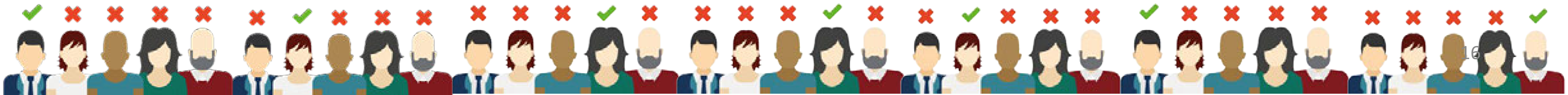


Competition illusion becomes entrenched as bank owned and aggregator 'brand' loans are offered to consumers as if the brand were merely another lender on their panel

Each aggregator has an individual COMMERCIAL remuneration CONTRACT with each member business

Less aggregators means less choice of aggregation services for Mortgage Broker businesses

Independently owned Mortgage Broker businesses become rarer and are more easily manipulated by banks and bank owned aggregators



BANKS OWNING AGGREGATORS HAVE A DISTINCT COMPETITIVE ADVANTAGE AND ARE DISTORTING COMPETITION

CommonwealthBank

WE PAY OURSELF

Aussie
We'll save you

Aussie is a Bank owned Aggregator.
The CBA bank owner determines its remuneration contract for its settled loans with it's aggregator self.

The accredited introducer has no negotiation rights in the contract that the bank owner of the aggregator determines it will pay to itself.

When the accredited introducer leaves the bank owned aggregator the trail payment is still paid to the bank owned aggregator while the introduced loan stays in existence, but is not necessarily still paid to the accredited introducer.

Bank owned Aggregators determine which of their competitors can be on their panel of lenders.

Bank owned aggregators have access to all their competitors policy, procedures, and pricing information together with their accredited introducer lodging history.

Contracted 'authorised representatives' of aggregators (in reality) can only access loan products from their aggregator's panel of lenders to satisfy their customer's borrowing needs

nab

National Australia Bank

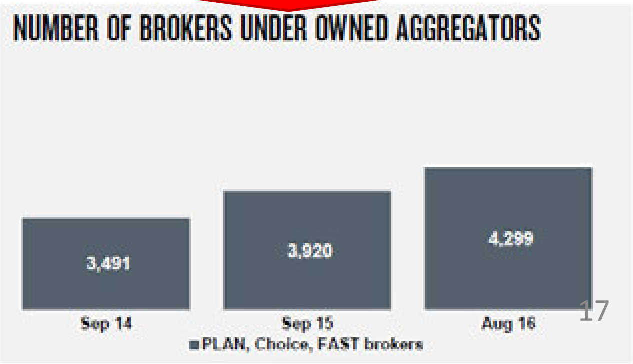
WE PAY OUR AGGREGATOR SELF

AGGREGATION

PLAN AUSTRALIA

FAST Stay Ahead

PAYS THE BROKER



AGGREGATOR

WHITE LABEL

PLAN AUSTRALIA

FAST Stay Ahead

choice AGGREGATION

AFG

connective

REA Group smartline personal mortgage advisers

ASTUTE

Loan Market

LJ Hooker Home Loans

"CEO of FAST, says aggregators are in a position to offer great commissions on white label products because they profit from the lend in other ways and don't need to "clip" commissions as they may for other branded products."
The Adviser, 5 June 2014

Choice Home Loans says… "…it's the broker's own product."
The Adviser, 5 June 2014"

CFO REA Group explains… "The first is our white label product in partnership with NAB. This delivers a revenue stream of upfront commissions on all loans written plus a yearly contribution from NAB to fund the development and marketing of our experience."
Australian Broker 14 August 2017

Duty of Care Obligation For Lender-Owned Aggregators

Lender owned aggregators cannot always act in clients' best interest just as bank employees cannot

Oh! I didn't realise that my decision was going to be made by somebody else…

I'm not paid to advise where the best deal is! Heck my own mortgage loan is with the bank across the road.

Industry Associations – 2008 (reflection on the past)

MFAA Breakfast Melbourne
13 March 2008
Credit Crunch - Lender Presenter
Brokers told to expect commission cuts across the board.

MFAA Breakfast Melbourne
16 July 2008
Changing Financial Markets Conditions
Presenters NAB, CBA & St George
Brokers told why they should accept lender commission cuts and to pick up their game if they wanted to stay in the industry. "Quality " measures were about to be introduced and the industry would be rid of the "part-timers".

MFAA Media release 23 April 2008
…"Time and time again, members have said to me 'why are mortgage brokers, which are for the most part, small businesses, being singled out for 35 per cent remuneration reductions in order to boost bank profit margins?'
"They argue they have families to feed, mortgages to pay and business expenses, so they can't understand why they are being targeted, when, apart from borrowers, no-one else in the mortgage distribution chain is being slugged," said Mr Naylor.
"Our members have told me they have had issues with transparency in discussing channel conflict (conflict between broker loans and branch loans) and have experienced delays in mortgage discharges. These problems have had a tangible negative impact on the good customer service that brokers provide," said Mr Naylor.
MFAA/BankWest consumer research has consistently shown that customers rate broker service significantly higher than service from banks when taking out a loan.
"Brokers recognise that all points in the distribution chain need to be reasonably remunerated, but they are concerned that lenders' lack of transparency and open dialogue will undermine a more efficient mortgage distribution process…"

The MFAA Board's decision to hold an Industry Roundtable was based on a desire to consider all the key issues confronting the industry. 22 representatives of aggregators, mortgage managers and lenders (bank and non bank) met on April 28, 2009, under the auspices of the MFAA, to discuss industry issues, including lender service levels, broker submission quality and competition.

MFAA spokesperson opinion is mortgage brokers are in an employee relationship with lenders via aggregator contracts that the mortgage broker is not privy to.

2017 Combined Industry Forum - CIF

An attempt by lenders to self-regulate a regulated industry. First step was the Sedgwick-ABA sponsored "Retail Banking Remuneration Review" commissioned and paid for by the banks.

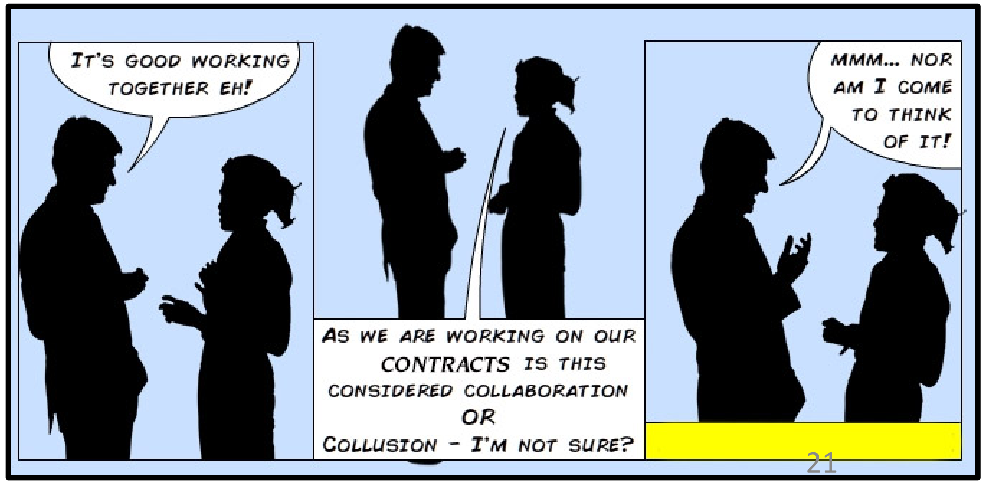
Followed by banks, aggregators, industry associations, & non-industry consumer advocates forming a group to decide how to reduce mortgage brokers remuneration and increase levels of service expectations for the banks and aggregators without any benefit to the mortgage broker or to mortgage broker clients.

The CIF meetings are closed door, confidential meetings, conducted by the self-imposed industry leaders.

The term 'aggregator' is being replaced with the term 'Broker Group' trying to make their role similar to Financial Planning Dealer Groups

Mortgage Brokers and consumers have no unconflicted representative body at the CIF meetings.

"The independent review is necessary to ensure confidentiality of information and proper process. The independent reviewer has specifically been asked to identify options to guide potential responses for banks, including whether regulatory approvals or other actions are needed to enable banks to make any changes or take actions to address the relevant issues.
Changes could be implemented in the form of legislative reform, which would ensure that all banks and other participants in retail banking are subject to the same legislative requirements and standards. Alternatively, the banking industry could seek authorisation from the ACCC. In this case, a proposed approach and timings is set out in Attachment B. We look forward to the independent reviewer identifying options and recommendations for action by the banks, and also how banks would be able to take action to ensure competition in retail banking is not adversely impacted and banks are able to meet their various legal obligations, in particular competition laws." ABA submission to Sedgwick Review page 5,6.



2017 Combined Industry Forum

AUSTRALIAN BANKERS' ASSOCIATION INC.

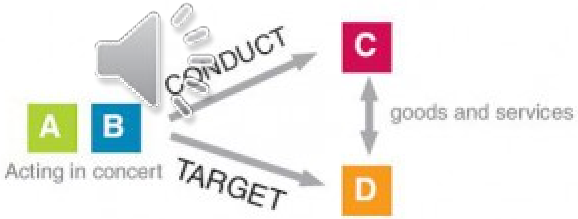
25 LENDER MEMBERS

CUSTOMER OWNED BANKING ASSOCIATION

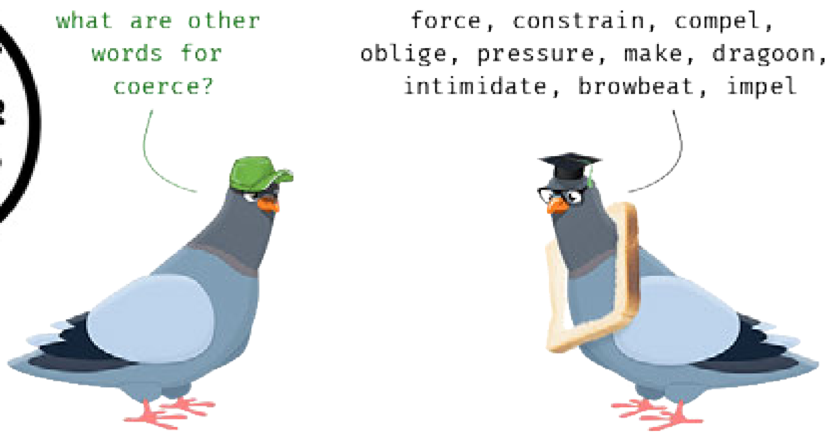
76 LENDER MEMBERS

AFIA
Australian Finance Industry Association

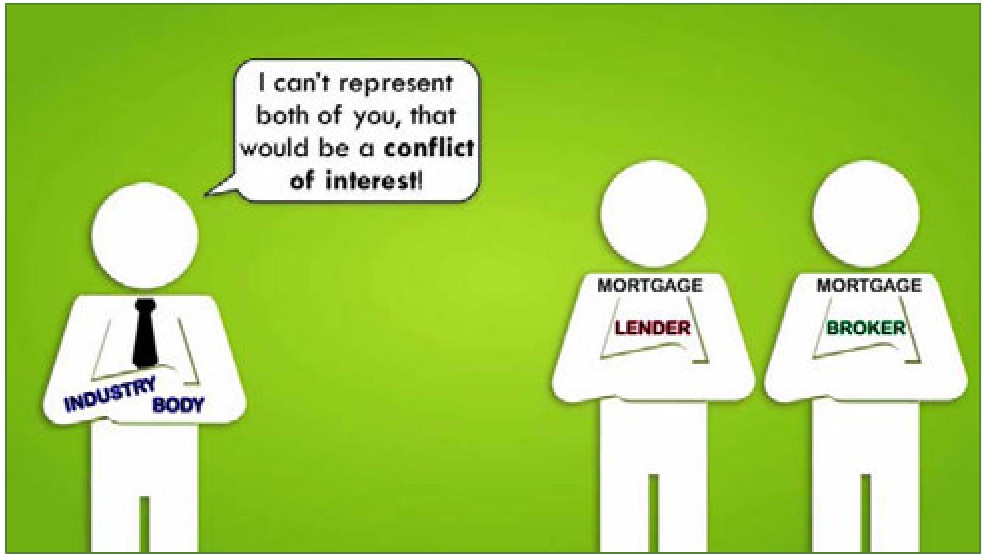
50+ LENDER MEMBERS



choice
THE PEOPLE'S WATCHDOG



Most lenders will not accredit a mortgage broker if they are not a member of the MFAA or FBAA



MFAA
MORTGAGE & FINANCE ASSOCIATION OF AUSTRALIA

34 LENDER MEMBERS

FBAA

LENDER MEMBERS- ??

AGGREGATORS – CONTRACTORS OF LENDERS

Potential to increase the scope of Finance Advice to include some Credit Products

Margin loans are a credit product that is already in the scope of financial advice.

I don't believe they should be as a margin loan is a credit product not an true ASFR product. The money borrowed via a margin loan is usually used for investment purposes but a margin loan is not an investment product. Margin calls are part of the repayment agreement of the loan and not a loss of investment capital. A loss or gain on the investment cannot be determined until the underlying security asset has been sold. Having a credit product listed as a financial product demonstrates that even those that should know better do not.

The advice around buying shares may include borrowing money but the investment strategy is very separate from the borrowing strategy and conditions of repayment.

Financial Product advice is based on the concept that a consumer is investing their money into a product that they can lose their capital – the money they have invested. Many financial products are complicated and have an abundance of risks that need to be explained and understood. If these products cannot be simply understood by a consumer they should not be available for consumers to buy. An advisor can advise to invest but the consumer is the one making the decision to risk the loss of capital.

A bank credit product, such as a home loan or a personal loan, or a credit card, is a relatively simple concept someone lends you their money and you are required to repay the money plus interest at a set future date or over a period of time.

Some financial advisor already operate as mortgage brokers.

The confusion entwined by the FRSA, FOFA, "Advice" model is very understandable as it relates to specific products from specific financial product producers and a defined "Financial Service". Financial planning, per se, does not require a person to hold any licence. SMSF are also not an investment product they hold investments and calling them a financial product places all sorts of connotations on who is responsible for investment decisions by the SMSF.

Interest Rate Transparency

The interest rate a consumer is currently paying on their loan needs to be very visible on the first page of a loan statement. Then the advertised rate that bank is offering to new to bank clients.

Interest rates have gone from a simple table to pages of interest rate data
Interest rates for new to bank business
Interest rates for < 70% LVR, <80% LVR, >80% LVR, <90% LVR, >90% LVR
Interest rate for owner occupied property loans principal and interest repayments
Interest rate for owner occupied property loans interest only repayment
Interest Rates for investment property loans principal and interest repayments
Interest Rates for investment property loans interest only repayments
Interest Rates for Line of Credits
Interest Rates for advertised Package Discounts
Interest Rates for unadvertised Package Discounts
Interest Rates for Fixed Terms for 1,2,3,4,5,10 years
Interest Rates for Basic Products with various product differences

Interest rates do not go down if a property value increases and the LVR drops as a result – the interest rate premium paid for LVR at approval stays for the life of the loan.

With the number of loan products on offer (reportedly up to 4000 products) ASIC could never develop a tool that was consumer friendly that allowed a fair dinkum apples with apples comparison. The assumption being applied is that the borrower is an expert in what product is what.

Lenders Mortgage Insurance (LMI)
Yes - changes are required

- Lenders mortgage insurance is a product that is not available for a consumer to purchase, but the consumer pays the premium. It is a pay it or stay out of the home loan market proposition for low deposit home buyers.
- The contract is between the lender and the mortgage insurer, but the consumer pays the lenders premium. The consumer is not legally entitled to a refund because even though they pay the premium they are not the insured party responsible for the premium payment.
- In the past a percentage of the premium was able to be refunded for the first two years if the lender advised they wanted the refund within 60 days of the loan being repaid. Very few consumers were made aware that the refund was available. Some lenders still have this refund available to them.
- The major banks (it has been claimed) opted for a lower premium over a refund for first one or two years.
- There no valid reason why a consumer should pay the banks LMI premium to protect the bank against default of the borrower and then be charged a premium interest rate because the loan to value ratio is over 80%. No valid reasons includes any APRA capital requirements.
- Interest rates based on LVR are a profiteering exercise as the interest rate does not reduce when the loan to value ratio is reduced due to capital increases.
- The premium charts need to be examined as due to borrowing $1 more can cost a borrower $1000’s of dollars extra in premiums. E.G. for a $500,000 @ 94% the premium is 2.83% of the loan amount ($14250-) for a $500,001 the premium is 3.91% of the loan amount ($19,550-). The bank doesn’t care the borrower pays.
- The self insured LMI practice needs to be examined to ensure that the bank is not selecting loan customers that they have data on that are unlikely to default, so basically they are just pocketing the borrower premium.
- Lenders Mortgage Insurance providers do not like people to shop around. Too many inquiries on a persons credit report can be an automatic decline.

With Healthy Competition Alive Mortgage Brokers Function as Independent Analyzers

Lender made accountable for shoddy service

Lender made accountable for policy discrimination

Lender made accountable for product inadequacy

Lender made accountable for product price

In a healthy competitive environment Third-Party Mortgage Brokers are a valuable asset to the whole economy.

The National Consumer Protect Act is another area of great concern when looking at consumer protection.
The responsible lending guidelines are meant to protect consumers from being placed in loans that they cannot afford without substantial financial hardship. Reasonable steps are required to be taken to establish a consumers financial position and reasonable steps are required to verify the information. Reasonable enquiry is not documented proof.
Through APRA and ASIC interference banks are being given free reign to conduct forensic investigation into people's personal circumstances. The questioning is becoming invasive and people living a simple existence are not believed.
APRA and ASIC are not bankers and their emphasis on making loans appear unaffordable via elevating a person's living expenses and loading the actual interest rate by 3 or more percent are disadvantaging consumers who are very credit worthy.

Some investigation is needed into the Mortgage Industry and why mortgage brokers are being encouraged to become authorised representatives of Aggregators instead of holding an Australian Credit Licence which the NCCP intended. Their seems to be a push for mortgage brokers to become aligned with one 'Broker Group' which has its own set of distribution products (white label). CBA have not accepted new accreditation applications 14 December 2017. This freeze period is to remain until after the first quarter of 2018. In the Advisor it was reported that CBA will no longer accept accreditations from new mortgage brokers with less than two years of experience or from those that only hold a Cert IV in Finance & Mortgage Broking or who are not a member of the MFAA of FBAA... It was reported that "Accreditation changes aim to support Combined Industry Forum reform package" CBA representative said "So, that is what we feel is appropriate for the brokers that we want to partner with…". Brokers partnering with banks cannot provide the best consumer outcome nor will it foster a competitive market place. It is important to remember that banks do not pay mortgage brokers. They have no commercial remuneration contract with them. CBA have had a policy for new accreditations that the individual must sign a statement that they will provide a certain number of applications and settled deals within a set timeframe. What is still to come?

In Good Faith

Maria Rigoni