Submission to the consultation on ASIC’s review of mortgage broker remuneration

To the ASIC review panel

After many years working at nab, westpac and also ANZ and Ford credit australia when it was in existence, I know from first hand experiences that when clients approach a bank directly they get a far less favourable banking outcome than having a finance broker represent them. They are also at mercy of banks who are going the hard sell on not only increased lending margins but also cross selling their products into trusting clients, without ever comparing if these products are suitable for them or market competitive.

On the most simplistic level, a good broker who are looking after their clients best interest will explain a clients options across the whole market and then source the best deal they can which will normally result in a .50% to .70% discount to what the banks would offer customers directly. This is not to mention advising clients what is fair to agree to with respect to terms and security vs what the banks may seek directly and without anyone assisting unadvised clients.

To summarise this point, it is never in a customers best interests to go directly to a bank or financial institution and get a loan as they are up-sold on margin which will cost the average consumer thousands of dollars extra every year. As an example we on average save our clients who refinance to another bank, with better terms that we've negotiated, an average of $5000 per annum. Our largest client saved $100,000 per annum just recently on the loan we achieved for them vs what their long term bank offered them directly.

With respect to commissions. Many brokers including ourselves run professional offices, employ staff and spent significant amounts of time working on clients applications and comparing market options for our clients. These are all non-stand loan discounts and individually negotiated to our clients benefit. Clients also see us as their first point of call ongoing for all minor loan changes rather than going to the bank directly. So in affect we become our clients banking managers for all large and small matters, due to the banks poor direct service standard which is only getting worst as they continually reduce staff and aim to push clients onto impersonal technology platforms despite clients wanting to deal with real people such as us.

This infrastructure costs a significant amount to maintain and provide the service which our clients want and expect. As we explain to all our clients about commissions which as you know are fully disclosed to all clients before they proceed with any application. Unlike banks. Trailing commissions allow us to provide this ongoing service to them long after the transaction as settled and without charging them a fee, and the upfront commission is our remuneration for establishing the transaction and many hours of work that go into research, advice and negotiating the right deal for them not to mention following through on the all important small details required. Without this we could not offer these professional services and they would need to revert directly to the banks where they will ultimately pay a lot more for the loans provided to them and not get the service they want.

Broker compliance and risk of loosing our licence means that our adherence to all ASIC and bank compliance restrictions is paramount as we've build a business based on being compliant and have much to loose, as well as the responsibility of supporting our staff and customers. Working directly in a bank the level of compliance is far less, as is the responsibility. The number of times banks have been charged with taking advantage of customers through poor advice, poor products and generally overcharging and abuse of their market power is why the broker market must remain unchanged and operating efficiently to Te benefit of Australian consumers. This current move to restrict commissions is the big banks moving to disconnect brokers who now introduce more than 60% of mortgages to banks and importantly are not employed or aligned to the bank so therefore banks must pay brokers to source business but also must offer more competitive deals to win customers seeking choice.

With respect to restriction of commissions based on lvr or any other policy position, this again is illogical. If a bank is willing to approve a customers finance under their policy terms or subject to credit waiver of policy based on commercial merits then how does this logically justify brokers being paid less? In fact if a client needs help and can only find it via a broker who is knowledgable enough to explain all market options to them, then this a great customer service and is again a great service to the end consumer.

Restrictions on Commissions based on loan sizes, is also another blatant attempt to claw back payments to brokers and reduce the banks distribution costs only. Larger loans almost always mean clients will have more complex arrangements and will be seeking good advice from someone who can explain their market options. Cutting / capping broker commissions on larger loans means banks will simply try to capture more of this market directly with the clear view to up sell higher margins (lower discounts offered to customers) to customers and generate more profit per client.

Commissions and clawbacks are in place to ensure appropriate loans are written for clients which means brokers bear this ongoing risk as it stands today which is severe. Therefore brokers must ensure that the rights loans are provided to clients otherwise they risk losing 100% commission in the first year and 50% in year 2. This does not apply to bankers working in a bank where their direct salary is reversed if they don't provide clients with the proper solution

In summary the current broker model which is basically established to offer consumers better choice is working and the current commission model is also working. All of our customers are 100% aware and comfortable with upfront and training commissions we receive because it's at no direct cost to them and they still get s better deal than what they could achieve going to a bank directly. Further most clients are with us after years of poor / no service which was provided to them by the major banks. This effectively creates a win win for clients and brokers who are all small businesses. The banks ultimately get the clients albeit by having to provide better deals to customers which they don't want too, and is the mission of this review, plus having to pay the brokers for managing the clients and the entire process.

What should be improved under this review is removal of soft dollar bonuses which are undisclosed and unnecessary. All ironically offered by banks directly and not sought by brokers.

Plus ASIC should in force higher standards of entry into brokering and people who are allowed to be a finance broker. People without good finance experience as an example should be forced to seek proper industry experience before being grated a licence.

Regards,

Barry Thatcher