30 June 2017

Manager

Financial Services Unit

Financial System Division

The Treasury

Langton Crescent

PARKES ACT 2600

Via Email: [consumercredit@treasury.gov.au](mailto:consumercredit@treasury.gov.au)

To whom it may concern,

**RE: ASIC REVIEW OF MORTGAGE BROKER REMUNERATION**

As an interested party to this review, please find below my response and comments to the ASIC Review of Mortgage Broker Remuneration (“ASIC Review”). I have been involved in the broking industry for more than 10 years, running a small family business providing mortgage broking to other family members and clients, primarily attracting new business through word of mouth referrals from existing clients. In 2014, my son also joined the business, enabling us to spread the load a little and support our clients better.

The fundamental reason that I am writing to you today, stems from the very same reason that I started my own business and joined the industry. I was trying to finance a new purchase, and could not get the support from my incumbent lender at the time – I decided that there must be an easier way to obtain the finance that I needed and enjoy significantly better service than I received from my own lender at the time.

I believe that we continue to offer a practical, client focused solution to their lending needs. No bank employee is happy to meet outside on normal branch hours, even on weekends, and wherever is most suitable to the client. No bank employee will meet a FIFO client at the airport to facilitate document signing. No bank employee provides unbiased financial advice on their or other bank products. In my experience, bank employees are correctly concerned about one thing and one thing only – fulfilling the terms of their employment agreement to maximise their employer and their own personal reward.

I appreciate that it was identified by the ASIC Chairman in the media that brokers deliver great consumer outcomes. However, I am also of the opinion that any positive sentiment has been lost due to significant negative press also published around the issue by ‘well-advised’ journalists trying to sell a story. I also think that the ASIC Infographic provided to members of the media and publically available on the Treasury site can provide a misinformed negative picture of brokers which generally is not correct.

Allow me to interact briefly with each of the highlighted differences between a lender written loan and a broker written loan:

1 Broker customers borrow more. As a broker, I understand my client’s needs. I understand that although they only need a certain amount to complete a purchase transaction, they also wish to perform renovations, purchase a new family car or negate risk by allowing for a number of months repayment buffer. The difference between the broker and lender average borrowings of $31,000 could represent the typical personal or car loan subsequently applied for after the house finance is finalised. Given that banks hold all money mortgages, it is in their best interest to lend less for the house purchase, and then charge higher interest rates for partially or wholly unsecured lending that the broker would have taken into account. In my experience, it is not the home loan that puts the client into hardship – it is the car loan at ridiculously high (undisclosed!!) interest rates that does that. It is unclear from the ASIC Review whether any personal or other finance has been taken into account in this analysis.

2 Broker customers have lower property values. To me, although this is a statement of fact, it is presented in a way that portrays negatively on brokers. There are an insurmountable number of reasons why this could be the case – I have summarised a couple that quickly come to mind. Lenders are known to actively target the high flyers, and higher net wealth industries. Members of professional bodies are actively and continually spammed with information regarding the professional banking arrangements available to their industry. Some lenders spruik ‘professional’ offers, including mortgage insurance waivers, to these individuals that as brokers, we don’t have, or haven’t always had access too. Brokers write significantly more construction finance than lenders directly, resulting in house valuations being lower to reflect a lower level of finish compared to a fully established house.

3 Broker customers have higher loan to value ratios. I assume that this statement relates to the initial drawdown of the loan. The reality is that an average loan to value ratio below 80% is a good reflection on our banking industry as a whole. This is below the level that the banks themselves have identified as an acceptable risk. The other reality is that broker customers are likely to be more advised and learned about lower deposit options available to them and may be assisted into their own home quicker rather than paying rent.

4 Broker customers spend more of their wage on the mortgage. Similar to point 2 above, I believe this is attributable to the differences between the types of customers serviced by lenders compared to brokers. It is easy if you are a high wealth individual with a PAYG job to walk into any branch with a payslip and be approved for a loan on the spot. Although a broker would occasionally get an ‘easy’ application like that, the majority of their applications would be more difficult and include variable employments including casual, fluctuating hours, self-employed.

5 Broker customers take out more interest only loans. I am completely in agreeance with the ASIC Infographic on this point. However, once again it paints brokers in a negative light, when that is not the case, as there are numerous reasons why this might be the case. When purchasing an investment property, it was significantly beneficial to our clients to make the debt interest only while they pay off their owner-occupied debt. The widening availability of genuine transactional and non-transactional offset accounts allowed customers with discipline to reduce their net debt every month by crediting the principal amount to the offset account, rather than loan – allowing for maximum tax deductibility of debt at a later stage when they upgrade and rent out their previous purchase. We are not tax accountants – however, maximising tax deductibility of debt in conjunction with the clients accountant is (or was until recently) just good common sense. Applying for interest only terms on a the solely secured loan for a first home buyer, whilst making extra payments on the parental guarantee loan to clear the guarantee loan quicker, is just good common sense. Paying off unsecured debt at higher interest rates before paying off your mortgage at the lower interest rate, is just good common sense. The bottom line is that any application involving interest only payments, needs to demonstrate serviceability over the remaining term of the loan once the interest only period is finished. We aren’t willing to risk our business and family stability by putting client’s into a loan where they can only afford the interest only payment – because then they couldn’t afford the increased repayment when interest only is finished.

6 Broker customers get the same interest rate as going direct to the lender. Of all the points in the Infographic, this is the one that most surprised me. Within our portfolio, we have regularly beaten a banks pricing offer direct to the client by approaching them through the third party channel. This also ignores that fact that we may have taken the client to another lender with a cheaper interest rate saving them significant interest amounts.

7 Broker customers pay down the loan slower. This is directly tied to point 5 above, particularly relating to tax deductibility of debt. Our clients understand the benefits that interest only loans can have on reducing their personal debt quicker, or maintaining an offset account with the principal amounts that would otherwise have been used to reduce the debt balance in order to maximise the tax benefits available to them. Offset account balances are then used to facilitate the next purchase, resulting in slewed figures where it appears additional repayments haven’t been made.

I am convinced that in 99.9% of cases, a broker would not write his client a loan incurring LMI where it could have been written without, and in 100% of the 0.1% cases, would strongly recommend the client changes their plans to facilitate a non LMI loan. It is only when an applicant incurs LMI regardless that a broker would take into account the borrowers’ plans outside of the single transaction to potentially increase the loan amount to cover additional items, and would still highly discourage additional borrowings that would result in jumps between LVR tiers resulting in significant increases to the LMI cost.

There seems to be a misconception in the market place that brokers get overpaid, or that broker commission is a ‘dirty’ bonus that brokers get for writing loans when in fact it is our reward for work performed. The fact of the matter is that our upfront commissions seldom cover our costs associated with that loan application, from numerous preparatory meetings, to compiling the application, submitting process, lender credit communications, printing loan documents and contracts, signing of same, communication and letters with clients and other interested parties in process, to post settlement visits assisting client with online banking, phone app setups and card activations/linkages.

Broking is one of the most difficult markets to get a foothold in for a new entrant – the barriers to entry are significant. Those who survive in the industry are those who have been in it for a long time, or who have the support of someone else who has, who can rely on their trailing income to allow them to provide the service required to their customers. This trailing income is a very important income source that goes towards cover our costs associated with non-paid process activities like discharges, loan switches and security substitutions, and all this before office, car, phone and other `business activity running costs.

For the majority of industry participants, we don’t even know about differing commission rates between lenders and it certainly doesn’t impact on our recommendations to the clients. Accordingly, we would be completely in support of equal commissions from all lenders. It removes one level of confusion for our clients. We would argue however that the commission rate should not be linked to loan to value ratios. The work associated with submitting a higher LVR deal is usually significantly greater than a lower deal and changing commission on this basis would severally impact our ability to assist customers who for genuine reasons have a low deposit but would like to enter the property market (the typical first home buyer).

Again, for the majority of industry participants, most soft dollar benefits do not exist. Conferences and similar benefits are only available to the highest volume writers – that’s not us, and accordingly it would not affect us in anyway if these arrangements ended. On the other hand, brokers are in a service business. Loyalty programs facilitate us getting better service from certain lenders and should remain – however it is more reasonable to base membership of these loyalty programs on other KPIs rather than volumes.

Our industry is already highly regulated in the NCCP era. We disclose the commission we receive, we prepare an assessment based on the client’s circumstances on each and every occasion. We hold our own credit licence, and convey the benefits of this to our clients. ASIC, the lenders and our aggregators have for a number of years been focusing our attention to the monthly living expenses of our client, as the only number we cannot prove beyond any doubt – I think as an industry we have evolved as a result, with better results compared to lenders (as per figure 28 in the ASIC Review).

Implementing further oversight at ASIC or aggregator level will increase the burden of cost on our small business, together with those in similar circumstances to us. Within our industry, like every industry, there are those who don’t abide by the rules – however, eventually they get caught out and dealt with. The ASIC Industry Funding Bill recently passed the senate – it is in our best interests to be compliant and minimise ASIC proceedings against our members. We live in an electronic age where generally even the most ignorant of customers can compare any advice or recommendations we make online – brokers who give poor advice won’t be able to maintain their presence in the market because of the increased competition. Additional regulation will push us one step further towards becoming a nanny state where no individual can take responsibility for their own decisions. ASICs desired outcomes could be better achieved through policy restrictions rather than changes to the commission structure – this is clearly demonstrated in the industry response to APRA’s interest only lending restrictions.

One major aspect of lending that has largely been ignored as far as consumer outcomes is concerned is Lenders Mortgage Insurance. Once a customer has successfully applied for a loan with a lending institution that involves LMI, they are essentially limited to remaining at that lender until such a time as their property value increases sufficiently, or debt decreases sufficiently, to allow a refinance or further borrowings at or below 80% LVR. The majority of lenders use one of two mortgage insurers – however, it is not possible to move between lenders without re-incurring LMI, even if the two lenders use the same insurer. This is not a good consumer outcome, and could be addressed by mortgage insurer policies at least being lender transferrable.

I would also implore ASIC to disregard the Sedgwick Report and any commentary surrounding it. I am disgusted at the ABA’s (together with their major contributors) blatant contempt for the ASIC Review process, and for their pre-determined drive to affect or ignore the results of the review. I understand that may not be within ASIC’s jurisdiction, but this attempt to subvert good process is anti-competitive behaviour, and I don’t believe our industry’s response has been strong enough. This report and the banks response to it is single-handedly the biggest threat to consumer outcomes in Australia at this point in time.

Regards

Hilko Siegers

Finance Manager and Director

Everfirst Financial Services

6 Bishop Close

SEVILLE GROVE WA 6112