



Money It Is

Finance Brokers

To whom it may concern,

I have been operating in the Financial Services Industry since 1998. My time has been spent operating a Mortgage Broking business for 10 years, I then sold this business and worked for our largest bank in Australia, CBA, as a Bank Manager for approximately 5.5 years. In October 2013 I resigned from CBA to relocate and open our broking business again, which launched in April 2014.

I feel that I have plenty of experience dealing with clients and operating in this industry to provide some valuable feedback.

The exposure draft Bill requires mortgage brokers to act in the best interests of consumers when providing credit assistance.

This should be the goal of any Financial services operator in our industry. I believe the current Compliance requirements are adequate when followed by all. For Mortgage Brokers issuing Credit Guides, researching lender's policies and providing Funding Position, Product Comparison & Borrowing Capacity Reports to clients is adequate and these reports provide a good detail of how you came up with "best interest" for the client. The Quote, Needs Analysis, Preliminary Assessment, Credit Proposal Disclosure & the Broker Checklist Declaration are great tools that are used in every situation. The relevant documents which are presented to the client is another level of awareness, to the client, as being able to show them how you have their best interest in mind. These documents are important in the process to have full disclosure and transparency.

Suggestion: If this is not considered "best interest" for the consumer, there needs to be set clear outlines for Brokers as to the exact expectations if you are to hold them accountable. I would like to see stronger words used, as "best interest" is not self-explanatory, considering the current practice is not broken. I am not sure as to what further could be done. This is extremely time consuming, as it should be, as we do need to get this right for a great customer outcome. We need admin help in our business just to handle the current Compliance requirements, which I feel is adequate.

The bill and regulations make changes to mortgage broker remuneration by: requiring the value of upfront commissions to be linked to the amount drawn down by borrowers instead of the loan amount;

Why? The consumer will not be approved for a loan unless there is capacity to repay. The only winners here are the banks. Clients that have substantial surplus funds in an offset account or redraw are usually wanting to retain those funds as they will be using them for another purpose. Eg a recent client of mine loan of \$850,000 total (mix of residential & investment) approved by Auswide, funds of \$450,000 going into their offset immediately, will be using their funds for the purchase of shares or another property soon. As a broker my commission declaration is of course based on \$850,000, which is not true, as my real remuneration will be less than 50% of that. I was well aware that the lender's will only pay

remuneration net of the offset balance, but providing the best solution for the client and them not wanting to “lose” their funds during this transaction, meant that I have done a lot of work for which I will not be paid. The client’s want to keep their funds that they have available in many cases.

This is only 1 example of many like this.

The lender’s however do not miss out as they will receive the greatest benefit. They have approved the loan knowing full well that the clients will use these funds in the future, and the client’s repayments will rise according to their current loan balance. This does not affect “best interest” for the client at all.

Suggestion: Stop the lender’s from approving loans where clients would like to use their money for the future and don’t allow offset accounts or redraw facilities. Yes, I agree that is ridiculous just like the remuneration that is not paid to brokers for these loans.

Banning campaign and volume-based commissions and payments; and capping soft dollar benefits.

Soft dollar benefits? Have not received these, where have I been for the past 20 years? If you mean deals moved to the head of the queue due to great quality of lodgements, fantastic! Why should we not be rewarded if you do a great job for clients by being a quality broker. *Volume-based commissions & payments?* If you mean the monies received by the Aggregators and a small amount passed onto the brokers, (I have possibly received <\$1,000 in 20 years) then yes, who cares. However, this doesn’t change the loans or loan amounts that a broker writes. *Banning campaign?* Campaigns around quality, are only ever put in place by my experience, to enhance the customer outcomes and lender’s try to assist by improving the broker’s quality of deals that are lodged. Again, nothing sinister toward the client.

Suggestion: stop any lender from requiring brokers to lodge a certain amount of deals to them to receive quicker service. Eg. Suncorp, CBA (just to name a couple) if you lodge x amount you will have your deals processed in x amount of days etc. But allow lenders to put their own “quality” matrix together to get better submissions from brokers and enhance customer outcomes. The lender’s should have the right to process quality deals with all of the paperwork upfront. And quality brokers should be able to expect fair “turnaround” times.

Furthermore, the regulations limit the period over which commissions can be clawed back from aggregators and mortgage brokers to two years and prohibit the cost of clawbacks being passed on to consumers. Entry into force of the reforms is scheduled for 1 July 2020.

This is simply unfair and can be crippling for us as a small business owner.

In the past financial year we had approximately \$9,000 “clawed back” from lenders due to the clients “change in circumstance”. None of these changes were uncovered during the Fact find or Preliminary assessment stage. This was not due to us doing a “bad job” but due to changes beyond our control. One client was in fact a Bank Manager/ Owner and used our services when his own bank could not assist. We spoke to him about clawback to which he expressed he was in the industry and would not use us like that. Simply was not true. We did confront him about this, as soon as we were notified of the clawback, to which he basically told us to “get over it”. Not acceptable from a fellow finance operator, but we had nothing we could do about this.

Another client sold due to divorce. Another client sold due to deciding to go overseas and was offered a great price for her property from a developer. Another client’s loan was rewritten in

branch by a bank's lender, when there was ample funds sitting in the client's redraw. The banker was clearly focussed on their KPI'S for this transaction.

These clawbacks had a negative financial impact for us and it was from only 4 clients. After returning to the broking industry in 2014 we are keen to grow our business, this stifled our growth and stopped us from offering our Admin staff member a more permanent position. We decided that we needed to improve our process around clawbacks and could not take the risk of being caught out again. We now provide the "Quote" to clients, which clearly declares the clawback that they will repay if they choose to "close down/ payout" their loan. The clients sign this quote and receive a copy. There are many ways that they may not need to repay the "clawback" eg, loan portability (if they sell they can take the loan with them to another security), use our service again (not ideal if <2 years however, better than a bill from the aggregator for the clawback).

Suggestion: Continue to allow brokers to continue to use the Quote, as we have a right to choose whether we will assist a client. We do not have to work for free. If a client will not sign this quote it would be a good indication as to their honesty and the fact that they will not be having this loan for more than 2 years. Let's not forget that there are costs for us as brokers doing business, with staff etc. and clients are usually signing 25- or 30-year loans, not 2 year development finance etc. Yes, sometimes clients try to lie and be fraudulent. There are a lot of shows promoting buy and flip/ renovate. Why should we as a small business be faced with a cost from a client profiting from our service? Or a bank for that matter?

It would be great to see lender's being transparent with brokers and letting them know if a "discharge" form had been lodged for your client. Quite often we are expected to perform some maintenance tasks, so why not this one? This could potentially provide an opportunity for discussion with the clients.