

04 November 2019

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**Submission on draft National Housing Finance and Investment Corporation  
Investment Mandate Amendment (First Home Loan Deposit Scheme) Direction 2019**

The Mortgage & Finance Association of Australia (MFAA) is pleased to have the opportunity to comment on the draft National Housing Finance and Investment Corporation Investment Mandate Amendment (First Home Loan Deposit Scheme) Direction 2019 (the Scheme). The Association welcomes the introduction of the Scheme and thanks the government for including the MFAA in the reference group consultation process.

**1. About the MFAA**

With more than 13,500 members, the MFAA is Australia's leading professional association for the mortgage broking industry with membership covering mortgage and finance brokers, aggregators, lenders, mortgage managers, mortgage insurers and other suppliers to the mortgage broking industry. The stated purpose of the MFAA is to advance the interests of our members through leadership in advocacy, education and promotion. To achieve this aim, the MFAA promotes and advances the broker proposition to a range of external stakeholders including governments, regulators and consumers, and continues to demonstrate the commitment of MFAA professionals to the maintenance of the highest standards of education and development.

**2. Overview**

The MFAA welcomes the first home loan deposit Scheme and the opportunity for MFAA members to assist more Australians to enter the housing market sooner than may otherwise have been the case. We recognise the value that the Scheme delivers to eligible first home buyers to access the housing market acknowledging the difficulty they face in accumulating a deposit and securing finance for their first home purchase.

It is the firm view of the MFAA that mortgage brokers can and should play a critical role in the distribution of the Scheme's guarantees.

### **3. Inclusion of mortgage brokers**

The MFAA believes that mortgage brokers, who have an average of 13.8 years' loan writing experience and currently write 6 of every 10 residential property loans nationally, are ideally placed to assist First Home Buyers (FHBs) in gaining access to Scheme guarantees as they endeavour to secure home finance. Brokers deal with a high proportion of FHBs who typically require considerable assistance to guide them through what is a complex market and the largest financing decision they are likely to make in their lifetime. In addition, brokers are well represented across the country, including in locations where banks have closed branches potentially enabling those FHBs in regional and rural areas to access the Scheme.

Given that Scheme guarantees will be a limited and sought after resource, the MFAA is concerned that lenders will have little incentive to use the broker channel and will potentially use the Scheme guarantees to draw customers back into their branches and other proprietary channels at the expense of the mortgage broker channel.

In order to avoid this potential impact on competition and to ensure that there is a fair distribution of loans made between the two channels, we propose that the NHFIC should consider implementing a cap on the number of Scheme guarantees made available through each of the proprietary and broker channels. This could be based on the current 60/40 market share split however should at a minimum be based on equal shares. Lenders should be required to report broker details to NHFIC when distribution has occurred through the broker channel so that overall proportions distributed between the channels can be tracked and managed by NHFIC appropriately.

An alternative would be to require lenders to distribute in accordance with their most recent (e.g. last financial year) proprietary/broker market share ratios, however the weighted average share of participating lenders may differ to the overall market shares depending on which lenders are selected to participate and may therefore not be aligned to overall market shares.

Without some constraint on this proportionality, lenders may exclude brokers resulting in broker customers being effectively marginalised. These customers may arguably be those in the greatest need of Scheme assistance and hence the importance of addressing this issue.

### **4. Availability**

Mortgage brokers provide access to the market for all lenders involved in housing finance, but particularly those that do not have their own branch network. Both lenders and brokers should be able to approach the NHFIC on behalf of a client, when they have established the client's eligibility and serviceability, in order to secure the availability of a guarantee and then be given a reasonable period in which the customer can use it. A broker should not be forced to conduct this process through a lender.

When the broker has secured a guarantee on behalf of the eligible FHB, they can give consideration as to which participating lender would be most suited to the customer's given circumstances, needs and objectives, and assist with a loan application on the customer's behalf.

Because the property purchase is dependent on the finance being approved, which is in turn dependent on the government guarantee, the likely order of the process for a broker-introduced loan would be as follows:

- The broker establishes if the customer is eligible and can service the loan.
- The broker applies to the NHFIC and secures the guarantee for the customer which is deducted by NHFIC from the overall annual allocation of 10,000.
- The broker makes application to a participating lender on behalf of the customer.
- When approved, the customer is then in a position to purchase the property.

If the broker is not able to access the NHFIC directly but is required to make application on behalf of the customer to the lender in order to establish whether a guarantee is available, this potentially becomes a poor experience for the customer for a number of reasons:

- It is likely to require the effort of a full application despite the uncertainties of whether a guarantee is available.
- It elevates customer expectation and if not approved, results in frustration.
- It leaves an inquiry on their credit file which reduces the customer's credit score which may impact their future ability to access credit.
- The broker is also no longer in control of the process and risks lender delays in making the appropriate request to the NHFIC.

Allowing broker access to the NHFIC early in the process to establish availability and secure a guarantee avoids the circumstances of a customer suffering an extensive investment of time and resource into submitting an application, potentially selecting a property that is deemed appropriate within Scheme criteria only to find that the guarantees have been fully allocated for that year meaning customer disappointment and subsequent reaction and potential criticism.

The MFAA recommends that mortgage brokers (and eligible mortgage brokers) should be defined and that the relevant Regulations and Directions should be amended where required to more formally reflect the role mortgage brokers will play in the distribution of the Scheme guarantees.

We believe that a mortgage broker could be defined as follows:

*A mortgage broker is a licensee or credit representative that provides credit assistance in relation to regulated credit contracts secured by mortgages over residential property.*

We also recommend that it should be mandatory for an eligible mortgage broker to hold current membership of a recognised mortgage broking industry association (such as the MFAA or FBAA) so as to ensure that they have met industry entry standards and ongoing compliance requirements, and have been exposed to relevant broker education regarding the Scheme.

## **5. Education**

In order for mortgage brokers to assist in the distribution process, we agree that an important element of that will be the relevant broker education. The MFAA would be pleased to assist in any way that it can to deliver appropriate training to its mortgage broker members in order to ensure a smooth, orderly and successful rollout of the Scheme. Considering that the Scheme commences on 1 January 2020, we recommend that the training process should commence as soon as possible and we will continue to work closely with the NHFIC to ensure brokers are properly equipped to assist FHB's through the process.

## 6. Conclusion

The MFAA appreciates the opportunity to provide a response to The Treasury's consultation draft National Housing Finance and Investment Corporation Investment Mandate Amendment (First Home Loan Deposit Scheme) Direction 2019. If you have questions about this submission, please let me know.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mike Felton', with a large, stylized initial 'M'.

**Mike Felton**  
Chief Executive Officer  
Mortgage & Finance Association of Australia