Don't force customers back to the big banks

I write to you as a mortgage broking customer to ask you not to force me to pay a fee of thousands of dollars every time I access my broker. I also ask you not to cut my access to an affordable home loan by handing power back to the big banks and killing competition in the home lending market.

As you will be aware, potential reforms are being discussed which include a ban on the commissions banks pay my broker in arranging a fairer home loan for me, and the introduction of a customer fee-for-service.

If enacted, this could make the mortgage broker channel unsustainable, forcing customers like me back to the big banks with large branch networks.

Killing competition and taking my choice away is likely to result in:

Increased fees and interest rates – as banks seek to restore their declining interest margins and increase profit without intense competition to keep prices down
Diminishing availability of credit – especially in regional and rural Australia, where few branches remain, and for lower income customers with more complex credit needs such as first home buyers
The end of trade for up to 17,000 small businesses, and the resultant loss of up to 27,000 FTE jobs in Australia.
My broker provides me with access to a panel of lenders – many of them smaller regional lenders – to help me get a fairer deal on my home loan. My broker also helps me to navigate the increasingly complex and uncertain application process, and helps to ensure that my loan is appropriate and affordable.

Mortgage brokers originate almost 60 percent of all Australian home loans, and act as a shop front for lenders of all sizes without large branch networks including credit unions, regional banks, international banks, non-major banks, building societies, mutuals and non-bank lenders. The competition that brokers have brought to the market has contributed to a fall in net interest margin of more than three percentage points,* which delivers lower interest rates to all Australian homeowners, and interest savings of more than $300,000 on a $500,000 thirty-year home loan.

The important pro-competitive impact brokers have delivered has been acknowledged in recent reviews of the mortgage broking industry by ASIC, the Productivity Commission and the Australian Banking Association. Treasury also noted in its submission to the Royal Commission Interim Report, that:

"If mortgage broking activity diminishes, this could have a significant detrimental impact on competition in the mortgage market. The potential beneficiaries of any lessening of competition would be the major banks with established branch networks".

The mortgage broking industry is well aware of the need to continuously improve its practices and to ensure that customer outcomes remain overwhelmingly positive. That is why the industry came together over 18 months ago to implement all the recommendations from the ASIC Review of Mortgage Broker Remuneration.

Through this self-regulation, the mortgage broking industry is addressing conflicted remuneration, improving disclosure and reporting, introducing a holistic approach to industry governance, strengthening its obligations to customers and introducing an enforceable, compulsory industry code. These industry-led reforms are focused on ensuring that my needs as a customer are prioritised, and that brokers will continue to deliver strong outcomes for customers.

The industry is committed to this reform agenda even though the two most recent, comprehensive reviews of the industry (ASIC's Report 516 and the ABA's Sedgwick Review) made no findings of systemic harm. It is committed to this reform agenda despite the exceptionally strong industry data which shows:

Increasing consumer support and high satisfaction
Extremely low and falling complaints
Low customer arrears
Increasing competition driven by brokers, particularly for regional and smaller lenders.
But most importantly, it is committed to this reform agenda because it will strengthen outcomes for customers like me without destroying the industry and handing power back to the big banks.

Despite these reforms, and the strong support given to them from both ASIC and the Treasury, serious consideration at the parliamentary level is still being given to a blanket ban on broker commissions paid by lenders.

Of equal concern is the proposal to replace mortgage broker commissions with a FoFA-style customer fee-for-service of thousands of dollars; and the alternative proposal (the Netherlands model) to introduce a customer fee-for-service for all home lending customers whether they access a bank branch or a broker.

These options unsurprisingly have the strong support of the Commonwealth Bank (CBA), which used its testimony at the Royal Commission hearings to push for policy changes. This reflects the desire of the big banks to push customers like me back into the branches to increase their own profits.

A FoFA style customer fee-for-service would see customers forced to pay a multi-thousand-dollar fee to access a broker, while accessing a bank branch would remain free. Independent research released in January 2019 in a survey of close to 5,800 Australian broker and bank customers has revealed that 58 per cent of Australian consumers who intend to use a mortgage broker in future would be unwilling to pay a broker fee of any nature and only 3.5 per cent of consumers would be willing to pay a fee of $2,000 or more.^

The alternative proposal (the Netherlands model) not only has me paying a new fee of thousands of dollars every time I access my broker, but also every time I walk into a bank branch to arrange a home loan.

This is nothing more than a massive new tax on borrowing.

Of equal concern, this proposal ignores elements of the Netherlands tax system that are critical to its operation. A key aspect of this model relates to a customer's ability to pay the fee. In the Netherlands, all interest on a home loan and costs relating to establishing a home loan are tax deductible, including the acquisition of advice relating to the loan. These can be deducted over the life of the loan.

Such massive changes to the tax deductibility of interest paid and expenses, of course, would never happen here, and as such I will have to carry the full weight of the new multi-thousand-dollar fee. This only adds to the current affordability crisis for those already struggling to buy a home.

Another critical aspect of the Netherlands model that has been ignored is the ability for the banks to undercut the broker channel. As such, the only way this could work is if fees were of comparable size and not of a level that challenges viability for broker businesses.

However, the current proposal states that this fee should be the equivalent of the banks' cost of writing a home loan. In this case, the large lenders' enormous economies of scale will mean their costs will be a lot lower than the marginal cost for a broker to arrange a suitable loan for a customer, which will therefore necessarily undercut the broker channel. Again, this brings great risk that consumers like me will simply be forced to desert the broker channel, decimating competition and access to credit.

While the major lenders will be very happy about these proposals, I fail to see how this is a good outcome for everyday Australians.

I again ask you as a member of the Federal Parliament to reject the blanket ban on broker commissions; reject a FoFA style customer fee-for-service for mortgage brokers; and reject the alternative of a Netherlands-style tax on borrowing.

These changes could make the broker channel unviable – cutting customer access to smaller and non-bank lenders; and entrenching bank power by forcing customers back into the branches. In destroying competition, this will in turn limit my choice and my access to credit.

I urge you to get the facts at www.brokerbehindyou.com.au and consider the unintended consequences of a blanket ban on broker commissions – for the good of all home loan customers and all Australians.