The Value of Mortgage Brokers

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Mortgage Brokers drive competition and provide value, service and most importantly, choice to home loan customers.

Value

Broker-driven competition has contributed to a fall in net interest margins of more than three percentage points over the last 30 years[1]. This is equivalent to savings of more than $300,000 on a $500,000 thirty-year loan[2] .

Service

9 out of 10 customers are satisfied with the services provided by their broker[3]. Brokers provide a personalised end-to-end service, from initial interview to application through to settlement and help customers navigate the complex process of securing a home loan. They act on the customer's behalf throughout the life of the loan, to negotiate with banks, credit unions and other lenders to ensure the borrower has an appropriate loan that matches their needs, at a competitive price.

Choice

Mortgage Brokers provide access to lenders that the average consumer does not have, including small and regional lenders beyond the big banks. On average, Mortgage Brokers have access to more than 34 lenders.

Putting customers first

The role of a Mortgage Broker is to advise the borrower of an appropriate loan that matches their needs at a competitive price, putting the customers' best interests first. Mortgage Brokers are required to disclose to their customers the lenders that they are accredited with. They must also disclose their top six lenders and the percentage of their business that went to each of these lenders in the previous financial year. If a Mortgage Broker failed to look after their customers' best interests they would not have a sustainable business. This is because most Mortgage Brokers are small businesses and rely on word-of-mouth for business referrals. Their quality of service and integrity is critical to their survival.

Borrower-pay model for mortgage brokers will give free kick to big banks

"The curtailment of mortgage brokers would severely reduce competition between the banks – raising margins on the $1.7 trillion of home loans… a 0.1 per cent increase in bank margins will raise mortgage profits by $1.7 billion a year in perpetuity."

– Dr Tom Hird, 'Mortgage Brokers: Hayne will kill competition', Australian Financial Review (12/2/2019)

[1]Deloitte Access Economics, The Value of Mortgage Broking, July 2018. [2]Based on an interest rate fall from 7% to 4% per annum. [3]Deloitte Access Economics, The Value of Mortgage Broking, July 2018. [4]ASIC Report 516: Review of mortgage broker remuneration. Australian Securities & Investments Commission, 2017. [5]Ibid. [6]Where a Mortgage Broker refinances a customer to a different lender for the primary purpose of receiving a commission, payment or other incentive, whilst that customer receives no benefit as a result of such change. [7]Momentum Intelligence, 'Consumer Access to Mortgages', January 2019. *This is a conservative estimate based on the average upfront commission paid to a mortgage broker, as it solely uses the upfront component of the commission structure, converted into a borrower-pays fee, and does not consider trail commission.

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Commissions explained

The Royal Commission has put a magnifying glass on the way brokers receive commissions. Here are a few key points that explain how it currently works:

- Mortgage Broker commissions are split into upfront fees (a percentage of the total loan amount, on average 0.54%[4]) and a deferred payment or trail commission (a percentage of the remaining loan balance, on average 0.18% per annum[5]).
- Whilst commissions may vary depending on factors to do with the type and complexity of a loan, the reality is that the upfront and trail commissions lenders pay Mortgage Brokers have only minor differences.[1] The commission structure therefore has little or no impact on the Mortgage Brokers' loan recommendations to a borrower.
- Trail commissions provide recognition and incentive for brokers to give additional support and services to their customers throughout the lifetime of their loan. Over time, having access to the ongoing support of a Mortgage Broker ensures customers have the most appropriate home loan.
- Removing trail commissions, as recommended in the Royal Commission's final report, may inadvertently lead to greater churn (frequent refinancing)[6], diminish competition in the home-lending market and give bigger profits to the big banks.
- A Mortgage Broker is required by law to provide their customer a credit proposal disclosure document which contains a reasonable estimate of the total fees or charges that the Mortgage Broker is likely to receive.

If the recommendations from the Royal Commission are adopted, consumers could pay an estimated $2,000* or more for using a mortgage broker's services.[7]

Did You Know?

Mortgage Brokers are only paid a commission on settled loans. However, a Mortgage Broker dedicates hours to each customer file to ensure the loan application is prepared and submitted correctly. They spend time answering questions, educating and supporting their customers so they fully understand their loan options, and to help them resolve their individual credit issues.

What the Royal Commission's recommended changes could mean for borrowers

Less choice for customers

Every Australian navigating the complexities of purchasing property deserves choice, convenience, and service they can trust. Proposed changes from the Royal Commission will have a negative impact on choice and competition in the home lending market, and this impact will be felt most by everyday Australians.

Customers will need to pay an upfront fee

The Royal Commission's proposed changes include a recommendation that borrowers should pay a fee for using the services of a Mortgage Broker.

More power to the big banks

Mortgage Brokers provide choice and stimulate competition in the home loan market, yet the Royal Commission's recommended changes will shift power to the big banks and in doing so, likely increase interest rates for customers.

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[1]Deloitte Access Economics, The Value of Mortgage Broking, July 2018. [2]Based on an interest rate fall from 7% to 4% per annum. [3]Deloitte Access Economics, The Value of Mortgage Broking, July 2018. [4]ASIC Report 516: Review of mortgage broker remuneration. Australian Securities & Investments Commission, 2017. [5]Ibid. [6]Where a Mortgage Broker refinances a customer to a different lender for the primary purpose of receiving a commission, payment or other incentive, whilst that customer receives no benefit as a result of such change. [7]Momentum Intelligence, 'Consumer Access to Mortgages', January 2019. *This is a conservative estimate based on the average upfront commission paid to a mortgage broker, as it solely uses the upfront component of the commission structure, converted into a borrower-pays fee, and does not consider trail commission.